Lloyds Banking Group plc
Form 424B5
April 12, 2012

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Offered	Maximum Aggregate Offering Price	Amount of Registration Fee(1)
Debt Securities	$2,324,000	$266.33
Guarantee of Debt Securities	–	–(2)
Total	$2,324,000	$266.33

(1) Calculated in accordance with Rule 457(r)

(2) Pursuant to Rule 457(n), no separate fee is payable with respect to the guarantee

Pricing Supplement No. 37
(To Prospectus Supplement dated November 25, 2011
and Prospectus dated December 22, 2010)

Filed Pursuant to Rule 424(b)(5)
Registration Nos. 333-167844 and 333-167844-01
April 10, 2012

CUSIP/ ISIN	Aggregate Principal Amount		Price to Public(1)	Selling Agent's Commission(2)	Net Proceeds	Interest Type	Interest Rate	Interest Payment Frequency	Day Count Fraction	Business Day Convention
53944XBN4/ US53944XBN49	$2,324,000	Per Note:	$1,000	$17.50	$982.50	Fixed	5.00% per annum	Semi-annually	30/360	Following, unadjusted, New York and London
		Total:	$2,324,000	$40,670	$2,283,330					

Redemption Information: Non-Callable

Selling Agent: Barclays Capital Inc.

(1) The proceeds you might expect to receive if you were able to resell the Notes on the Issue Date are expected to be less than the issue price. This is because the issue price includes the selling agent's commission set forth above and also reflects certain hedging costs associated with the Notes. For additional information, see "Risk Factors — The issue price of the notes has certain built-in costs, including the selling agent's commission and our cost of hedging, both of which are expected to be reflected in secondary market prices" on page S-3 of the accompanying prospectus supplement. The issue price also does not include fees that you may be charged if you buy the Notes through your registered investment advisers for managed fee-based accounts.

(2) The Selling Agent may retain all or a portion of this commission or use all or a portion of this commission to pay selling concessions or fees to other dealers. See "Supplemental Plan of Distribution" on page S-26 of the accompanying prospectus supplement.

Lloyds TSB Bank plc	Offering Dates:	April 2, 2012 through	Notes:	Retail Notes, Series B
	Trade Date:	April 10, 2012	Issuer:	Lloyds TSB Bank plc
	Issue Date:	April 10, 2012	Guarantor:	("Lloyds Bank")
		April 13, 2012		Lloyds Banking Group plc

fully and unconditionally guaranteed by Lloyds Banking Group plc Retail Notes, Series B	("LBG")

Minimum Denomination/Increments: $1,000/$1,000
Settlement and Clearance: DTC; Book-Entry
Listing: The Notes will not be listed or displayed on any securities exchange or quotation system.

Survivor's Option Payment Date: Subject to limitations, each February 15 and August 15 of each calendar year. See "Risk Factors — Any Survivor's Option may be limited in amount, and any repayments made with respect to the exercise of a Survivor's Option will not be made immediately" and "Description of the Survivor's Option" starting on page S-6 and page S-17, respectively, in the accompanying prospectus supplement.

Interest Payment Dates: Interest on the Notes will be paid semi-annually in arrears on the 13th day of each April and October (each an "Interest Payment Date") beginning on (and including) October 13, 2012 and ending on the Maturity Date or the Survivor's Option Payment Date, if applicable. For additional information see "Description of the Notes and the Guarantees — Payment of Principal, Interest and Other Amounts Due" starting on page S-10 in the accompanying prospectus supplement.

If an Interest Payment Date, the Maturity Date or the Survivor's Option Payment Date, if applicable, for any Note is not a business day (as defined in the accompanying prospectus supplement), principal, premium, if any, and interest for that Note will be paid on the next business day, and no additional interest will accrue in respect of such payments made on the next business day.

Any payments due on the Notes, including any repayment of principal, will be subject to the creditworthiness of Lloyds Bank, as the Issuer, and LBG, as the Guarantor of the Issuer's obligations under the Notes.

LBG and Lloyds Bank have filed a registration statement with the SEC for the offering to which this pricing supplement relates. Before you invest, you should read this pricing supplement together with the prospectus dated December 22, 2010 (the "prospectus") in that registration statement and other documents, including the more detailed information contained in the prospectus supplement dated November 25, 2011 (the "prospectus supplement"), that LBG and Lloyds Bank have filed with the SEC for more complete information about LBG and Lloyds Bank and this offering. You may access these documents on the SEC website at.www.sec.gov. LBG's Central Index Key, or CIK, on the SEC website is 1160106 and Lloyds Bank's CIK on the SEC website is 1167831. The prospectus supplement and the prospectus may be accessed as follows (or if such address has changed, by reviewing LBG's and Lloyds Bank's filings for the relevant date on the SEC website):

· prospectus supplement dated November 25, 2011 and prospectus dated December 22, 2010
http://www.sec.gov/Archives/edgar/data/1160106/000095010311004966/dp27400_424b3.htm

Investing in the Notes involves significant risks. See "Risk Factors" beginning on page S-3 of the accompanying prospectus supplement.

The Notes are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

None of the Securities and Exchange Commission, any state securities commission and any other regulatory body has approved or disapproved of these Notes or passed upon the adequacy or accuracy of this pricing supplement, the accompanying prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

April 10, 2012

;">3,771

—

6,027

Liabilities under insurance contracts:

32,414

6,791

1,082

7,042

22,609

—

—

—

69,938

Deferred tax

18
11

—

11

3

—

—

—

1,056

1,081

Other liabilities

—

—

—

—

—

—

—

5,553

5,553

Total liabilities

32,425

6,791

1,093

7,045

22,609

2,256

3,771

6,609

82,599

Total equity

—

—

—

—

—

—

—

10,534

10,534

Total equity and liabilities at 31 Dec 2015

19
32,425

6,791

1,093

7,045

22,609

2,256

3,771

17,143

93,133

For footnotes, see page 95.

Insurance risk

A principal risk we face is that, over time, the cost of the contract, including claims and benefits, may exceed the total amount of premiums and investment income received. In

respect of insurance risk, the cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, and lapse and surrender rates.

Risk (continued)

Footnotes to Risk

Credit risk

1 The amount of loan commitments reflects, where relevant, the expected level of take-up of pre-approved loan offers made by mailshots to personal customers. In addition to those amounts, there is a further maximum possible exposure to credit risk of $49bn (31 December 2015: $59bn), reflecting the full take-up of loan commitments. The take-up of such offers is generally at low levels.

2 'Other commercial loans and advances' includes advances in respect of agriculture, transport, energy utilities and ABSs reclassified to 'Loans and advances'.

3 'Loans and advances to customers' includes asset-backed securities that have been externally rated as strong (30 June 2016: $392m; 31 December 2015: $504bn), good (30 June 2016: $65m; 31 December 2015: $95m), satisfactory (30 June 2016: $99m; 31 December 2015: $107m), sub-standard (30 June 2016: $19m; 31 December 2015: $19m) and impaired (30 June 2016: $64m; 31 December 2015: $73m).

4 Corporate and commercial includes commercial real estate renegotiated loans of $1,870m (31 December 2015: $2,134m) of which $442m (31 December 2015: $477m) were neither past due nor impaired, $19m (31 December 2015: $1m) were past due but not impaired and $1,409m (31 December 2015: $1,656m) were impaired.

5 Included within 'Exchange and other movements' is $1.1bn of impairment allowances reclassified to held for sale (31 December 2015: $2.1bn).

6 The charge for impairment losses as a percentage of average gross loans and advances to customers includes Brazil, which was classified as held for sale in 1H15.

7 'Currency translation adjustment' is the effect of translating the results of subsidiaries and associates for the previous period at the average rates of exchange applicable in the current period.

Liquidity and funding

8 The HSBC UK Liquidity Group shown comprises four legal entities; HSBC Bank plc (including all overseas branches, and SPEs consolidated by HSBC Bank plc for Financial Statement purposes), Marks and Spencer Financial Services plc, HSBC Private Bank (UK) Ltd and HSBC Trust Company (UK) Limited, managed as a single operating entity, in line with the application of UK liquidity regulation as agreed with the UK PRA.

9 The Hongkong and Shanghai Banking Corporation – Hong Kong branch and The Hongkong and Shanghai Banking Corporation – Singapore branch represent the material activities of The Hongkong and Shanghai Banking Corporation. Each branch is monitored and controlled for liquidity and funding risk purposes as a stand-alone operating entity.

10 The total shown for other principal HSBC operating entities represents the combined position of all the other operating entities overseen directly by the Risk Management Meeting of the Group Management Board.

Market risk

11 When VaR is calculated at a portfolio level, natural offsets in risk can occur when compared to aggregating VaR at the asset class level. This difference is called portfolio diversification. The asset class VaR maxima and minima reported in the table occurred on different dates within the reporting period. For this reason, we do not report an implied portfolio diversification measure between the maximum (minimum) asset class VaR measures and the maximum (minimum) Total VaR measures in this table.

Risk management of insurance operations

12 'Other' includes term assurance, credit life insurance, universal life insurance and remaining non-life insurance.

13 Although investment contracts with discretionary participation features ('DPF') are financial investments, HSBC continues to account for them as insurance contracts as required by IFRS 4.

14 'Other assets and liabilities' shows shareholder assets as well as assets and liabilities classified as held for sale. The majority of the assets for insurance businesses classified as held for sale are reported as 'Other assets and investment properties' and totalled $5.3bn at 30 June 2016 (31 December 2015: $4.1bn). The majority of these assets at 30 June 2016 were debt and equity securities and PVIF. All liabilities for insurance businesses classified as held for sale are reported in 'Other liabilities' and totalled $4.8bn at 30 June 2016 (31 December 2015: $3.7bn). The majority of these liabilities at 30 June 2016 were liabilities under insurance contracts and liabilities under investment contracts.

15 Financial investments held to maturity (‘HTM’) and available for sale (‘AFS’).
16 Comprises mainly loans and advances to banks, cash and intercompany balances with other non-insurance legal entities.
17 Present value of in-force long-term insurance contracts and investment contracts with DPF.
18 ‘Deferred tax’ includes the deferred tax liabilities arising on recognition of PVIF.
19 Does not include associated insurance company SABB Takaful Company or joint venture insurance company Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited.

Capital

Capital

Our objective in managing Group capital is to maintain appropriate levels of capital to support our business strategy and meet regulatory and stress testing related requirements.

Capital highlights

- Our common equity tier 1 ('CET1') ratio[1] of 12.1% was up from 11.9% at the end of 2015.
- Our CET1 ratio[1] strengthened as we continued to generate capital from profit and implement our RWA initiatives, creating capacity for growth.
- Our leverage ratio remained strong at 5.1%.

We manage Group capital to ensure we exceed current regulatory requirements and respect the payment priority of our capital providers. Throughout 1H16, we complied with the UK Prudential Regulation Authority's ('PRA') regulatory capital adequacy requirements, including those relating to stress testing. We are well placed to meet our expected future capital requirements.

We continue to manage Group capital to meet a target for return on equity of more than 10%. This is modelled on a CET1 ratio (on an end point basis) in the range of 12% to 13%, which takes into account known and quantifiable end point CET1 requirements including a regulatory and management buffer of 1.0% to 2.0%. This buffer is based on our estimate of the additional CET1 we will need to hold to cover the new time-varying buffers and other factors. It will be kept under review as clarity in respect of future regulatory developments improves.

A summary of our policies and practices regarding capital management, measurement and allocation is provided on page 243 of the Annual Report and Accounts 2015.

Our CET1 capital decreased in 1H16 by $0.2bn to $130.7bn. We generated $1.5bn of capital through profits net of dividends and scrip, offset by foreign currency differences of $2.3bn.

Capital overview

Capital ratios

		At	
		30 Jun 2016	31 Dec 2015
	Footnotes	%	%
Transitional basis			
Common equity tier 1 ratio	1	12.1	11.9
Tier 1 ratio		14.1	13.9
Total capital ratio		17.3	17.2

For footnote, see page 108.

Total regulatory capital and risk-weighted assets

	At	
	30 Jun 2016	31 Dec 2015

	Footnotes	$m	$m
Transitional basis			
Common equity tier 1 capital	1	130,670	130,863
Additional tier 1 capital		21,642	22,440
Tier 2 capital		34,481	36,530
Total regulatory capital		186,793	189,833
Risk-weighted assets		1,082,184	1,102,995

For footnote, see page 108.

RWAs by risk type

	RWAs	Capital required[2]
	$bn	$bn
Credit risk	851.3	68.1
Counterparty credit risk	73.7	5.9
Market risk	41.8	3.3
Operational risk	115.4	9.2
At 30 Jun 2016	1,082.2	86.5

For footnote, see page 108.

Leverage ratio

	At 30 Jun 2016	31 Dec 2015
	$bn	$bn
Leverage ratio exposure	2,788	2,794
Tier 1 capital (end point)	142	140
Leverage ratio	5.1 %	5.0 %
Quarterly average:		
Leverage ratio exposure	2,819	
Leverage ratio	5.1 %	

Capital (continued)

Risk-weighted assets

RWA movement by geographical region by key driver

		Credit risk, counterparty credit risk and operational risk						
		Europe	Asia	MENA	North America	Latin America	Market risk	Total RWAs
	Footnotes	$bn	$bn	$bn	$bn	$bn	$bn	$bn
RWAs at 1 Jan 2016		306.4	437.8	59.4	185.0	71.9	42.5	1,103.0
RWA movements								
RWA initiatives		(15.8)	(5.0)	(1.1)	(25.1)	—	(1.3)	(48.3)
Foreign exchange movement		(13.0)	(1.7)	(1.0)	1.8	4.6	—	(9.3)
Book size	3	14.6	(1.7)	0.5	4.2	0.5	0.6	18.7
Book quality		4.5	6.9	0.8	2.7	(0.1)	—	14.8
Model updates		0.3	—	—	(1.3)	—	—	(1.0)
– portfolios moving onto IRB approach		(0.1)	—	—	—	—	—	(0.1)
– new/updated models		0.4	—	—	(1.3)	—	—	(0.9)
Methodology and policy		2.4	1.3	—	0.1	0.5	—	4.3
– internal updates		2.4	—	—	0.1	0.5	—	3.0
– external updates – regulatory		—	1.3	—	—	—	—	1.3
Total RWA movement		(7.0)	(0.2)	(0.8)	(17.6)	5.5	(0.7)	(20.8)
RWAs at 30 Jun 2016		299.4	437.6	58.6	167.4	77.4	41.8	1,082.2

For footnote, see page 108.

RWA movement by global businesses by key driver

		Credit risk, counterparty credit risk and operational risk								
		Principal RBWM	US run-off portfolio	Total RBWM	CMB	GB&M	GPB	Other	Market risk	Total RWAs
	Footnotes	$bn	$bn	$bn	$bn	$bn	$bn	$bn	$bn	$bn
RWAs at 1 Jan 2016		150.1	39.5	189.6	421.0	398.4	19.3	32.2	42.5	1,103.0
RWA movements										
RWA initiatives		(0.1)	(12.3)	(12.4)	(11.3)	(23.3)	—	—	(1.3)	(48.3)
Foreign exchange movement		(0.5)	—	(0.5)	(5.6)	(2.7)	(0.2)	(0.3)	—	(9.3)
Book size	3	0.7	—	0.7	3.5	12.2	(0.7)	2.4	0.6	18.7
Book quality		(0.9)	—	(0.9)	5.9	9.5	0.1	0.2	—	14.8
Model updates		(0.9)	—	(0.9)	—	(0.1)	—	—	—	(1.0)
– portfolios moving onto IRB approach		—	—	—	—	(0.1)	—	—	—	(0.1)
– new/updated models		(0.9)	—	(0.9)	—	—	—	—	—	(0.9)
		0.5	—	0.5	1.3	1.6	—	0.9	—	4.3

Methodology and policy									
– internal updates	(0.8)	—	(0.8)	1.3	1.6	—	0.9	—	3.0
– external updates – regulatory	1.3	—	1.3	—	—	—	—	—	1.3
Total RWA movement	(1.2)	(12.3)	(13.5)	(6.2)	(2.8)	(0.8)	3.2	(0.7)	(20.8)
RWAs at 30 Jun 2016	148.9	27.2	176.1	414.8	395.6	18.5	35.4	41.8	1,082.2

For footnote, see page 108.

RWAs decreased in 1H16 by $20.8bn, of which $9.3bn was due to foreign currency translation differences. The decrease was primarily from RWA initiatives reducing RWAs by $48.3bn, partly offset by book size movements of $18.7bn, and a deterioration of credit quality and risk parameter movements that increased RWAs by $14.8bn. Comments below describe RWA movements excluding foreign currency translation differences.

RWA initiatives

The main drivers of these reductions were:

- $19.3bn through the continued reduction in GB&M legacy credit and US run-off portfolios; and
- $29.0bn as a result of reduced exposures, refined calculations and process improvements.

Book size

Book size movements were principally from:

- higher corporate lending in GB&M and CMB in Europe, Middle East and North Africa, and North America increasing RWAs by $7.1bn; and
- increased trade volumes and mark-to-market movements on derivatives and securities financing transactions increasing counterparty credit risk (‘CCR’) by $9.4bn.

Book quality

The main drivers for book quality movements were:

- corporate and institution downgrades and changes in credit quality mix in Asia, North America and Europe, increasing RWAs by $14.6bn; and
- the downgrade of Brazil’s and Egypt’s internal credit rating, increasing RWAs by $2.0bn; partly offset by
- the upgrade of Argentina’s sovereign rating, decreasing RWAs by $0.8bn.

Capital

Source and application of total regulatory capital

	Footnotes	Half-year to 30 Jun 2016 $m
Movement in total regulatory capital		
Opening common equity tier 1 capital	1	130,863
Contribution to common equity tier 1 capital from profit for the period		5,388
– consolidated profits attributable to shareholders of the parent company		6,912
– removal of own credit spread net of tax		(1,094)
– debit valuation adjustment		(103)
– deconsolidation of insurance entities and special purpose entities		(327)
Net dividends including foreseeable net dividends	4	(3,853)
– update for actual dividends and scrip take-up		(413)
– first interim dividend net of scrip take-up		(1,433)
– second interim dividend net of planned scrip		(2,007)
Goodwill and intangible assets		786
Ordinary shares issued		8
Foreign currency translation differences		(2,333)
Other, including regulatory adjustments		(189)
Closing common equity tier 1 capital	1	130,670
Opening additional tier 1 capital on a transitional basis		22,440
Movement in additional tier 1 securities		(205)
– new issuance net of redemptions		(680)
– grandfathering adjustments		574
– foreign currency translation and other differences		(99)
Other, including regulatory adjustments		(593)
Closing tier 1 capital on a transitional basis		152,312
Opening tier 2 capital on a transitional basis		36,530
Movement in tier 2 securities		(2,020)
– new issuance net of redemptions		567
– grandfathering adjustments		(2,284)
– foreign currency translation and other differences		(303)
Other, including regulatory adjustments		(29)
Closing total regulatory capital on a transitional basis		186,793

For footnotes, see page 108.

Leverage ratio

Summary reconciliation of accounting assets and leverage ratio exposures

	At 30 Jun 2016
Ref*	

		$bn
1	Total assets as per published financial statements	2,608
	Adjustments for:	
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	116
4	– derivative financial instruments	(236)
5	– securities financing transactions	9
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	302
7	– other	(11)
8	Total leverage ratio exposure	2,788

* The references identify the lines prescribed in the European Banking Authority (‘EBA’) template which are applicable and where there is a value.

Capital (continued)

Leverage ratio common disclosure

Ref*		At 30 Jun 2016 $bn
	On-balance sheet exposures (excluding derivatives and securities financing transactions (‘SFT’))	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,161
2	(Asset amounts deducted in determining tier 1 capital)	(34)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	2,127
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	37
5	Add-on amounts for potential future exposures associated with all derivatives transactions (mark-to-market method)	120
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	5
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(43)
8	(Exempted CCP leg of client-cleared trade exposures)	(3)
9	Adjusted effective notional amount of written credit derivatives	238
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(217)
11	Total derivative exposures	137
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	291
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(78)
14	Counterparty credit risk exposure for SFT assets	9
16	Total securities financing transaction exposures	222
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	900
18	(Adjustments for conversion to credit equivalent amounts)	(598)
19	Total off-balance sheet exposures	302
	Capital and total exposures	
20	Tier 1 capital	142

21	Total leverage ratio exposure	2,788	
22	Leverage ratio	5.1	%
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	

*The references identify the lines prescribed in the EBA template which are applicable and where there is a value.

Split of on-balance sheet exposures (excluding derivatives and SFTs)

Ref*		At 30 Jun 2016 $bn
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures) of which:	2,161
EU-2	Trading book exposures	274
EU-3	Banking book exposures, of which:	1,887
EU-4	– covered bonds	1
EU-5	– exposures treated as sovereigns	568
EU-6	– exposures to regional governments, multilateral development banks (‘MDB’), international organisations and public sector entities (‘PSE’) not treated as sovereigns	6
EU-7	– institutions	105
EU-8	– secured by mortgages of immovable properties	283
EU-9	– retail exposures	108
EU-10	– corporate	662
EU-11	– exposures in default	15
EU-12	– other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	139

*The references identify the lines prescribed in the EBA template which are applicable and where there is a value.

Our leverage ratio calculated on both the PRA and Capital Requirements Regulation (‘CRR’) bases was 5.1% at 30 June 2016. On the CRR basis, the leverage ratio was up from 5.0% at 31 December 2015 because of increased capital. The PRA basis was introduced on 1 January 2016.

At 30 June 2016, our PRA minimum leverage ratio requirement of 3% was supplemented with an additional leverage ratio buffer of 0.2% that translates to a value of $6.1bn, and a countercyclical leverage ratio buffer which results in no capital impact. We comfortably exceeded these leverage requirements.

The risk of excessive leverage is managed as part of HSBC's global risk appetite framework and monitored using a leverage ratio metric within our Risk Appetite Statement ('RAS'). The RAS articulates the aggregate level and types of risk that HSBC is willing to accept in its business activities in order to achieve its strategic business objectives. The RAS is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk appetite profile report is presented monthly to the Group Risk Management Meeting of the Group Management Board and the Group Risk Committee. Our approach to risk appetite is described on page 102 of the Annual Report and Accounts 2015.

Regulatory disclosures

Regulatory developments

Throughout 1H16, there was a series of documents issued by the Basel Committee on Banking Supervision which proposed significant changes to the regulatory framework. The key publications proposed changes to:

- the framework for credit risk capital requirements under both the internal model and standardised approaches;
- the operational risk framework;
- the credit valuation adjustment capital framework;
- the scope of consolidation to include entities giving rise to 'step-in risk'; and
- the leverage ratio exposure calculation and buffers.

The final impact of these and other proposals will depend on the outcome of the consultation processes and quantitative impact studies, and any changes would need to be

transposed into law before coming into effect. This includes the finalised changes that relate to the market risk, counterparty risk and securitisation regimes. In the UK, the Bank of England's Financial Policy Committee ('FPC') has indicated that there will be an offset with the PRA's Pillar 2 capital framework as a result of these changes but the full scope and size of this offset is currently uncertain.

The FPC also, in July 2016, decided to keep the UK countercyclical capital buffer requirement at 0% until at least June 2017, having previously planned to raise it to 0.5% in March 2017. Furthermore, the FPC recommended that the PRA buffer requirements reduce in line with this decision. The PRA did this with immediate effect.

As part of Recovery and Resolution frameworks, the international standard for Total Loss Absorbing Capacity was finalised by the Financial Stability Board. The Bank of England expects to implement this through the EU's Minimum Requirements for own funds and Eligible Liabilities framework, which it has consulted on but has yet to finalise.

Risk-weighted assets

RWAs by geographical region

		Europe	Asia	MENA	North America	Latin America	Total
	Footnotes	$bn	$bn	$bn	$bn	$bn	$bn
IRB approach		181.7	199.7	19.9	117.4	15.0	533.7
– IRB advanced approach		162.8	199.7	10.0	117.4	15.0	504.9
– IRB foundation approach		18.9	—	9.9	—	—	28.8
Standardised approach		46.1	175.1	31.1	20.0	45.3	317.6
Credit risk		227.8	374.8	51.0	137.4	60.3	851.3
Counterparty credit risk		36.7	15.7	1.4	15.9	4.0	73.7
Market risk	5	31.8	24.7	1.1	7.7	1.2	41.8
Operational risk		34.9	47.1	6.2	14.1	13.1	115.4
At 30 Jun 2016		331.2	462.3	59.7	175.1	78.6	1,082.2

For footnote, see page 108.

Capital (continued)

RWAs by global business

	Footnotes	Principal RBWM	US run-off portfolio	Total RBWM	CMB	GB&M	GPB	Other	Total
		$bn	$bn	$bn	$bn	$bn	$bn	$bn	$bn
IRB approach		57.6	20.8	78.4	225.3	210.7	7.8	11.5	533.7
– IRB advanced approach		57.6	20.8	78.4	205.5	202.9	7.7	10.4	504.9
– IRB foundation approach		—	—	—	19.8	7.8	0.1	1.1	28.8
Standardised approach		57.9	4.0	61.9	158.5	66.8	7.1	23.3	317.6
Credit risk		115.5	24.8	140.3	383.8	277.5	14.9	34.8	851.3
Counterparty credit risk		—	—	—	—	72.9	0.3	0.5	73.7
Market risk	5	—	—	—	—	41.5	—	0.3	41.8
Operational risk		33.4	2.4	35.8	31.0	45.2	3.3	0.1	115.4
At 30 Jun 2016		148.9	27.2	176.1	414.8	437.1	18.5	35.7	1,082.2

For footnote, see page 108.

RWA and Capital requirements for credit risk and information on risk exposures
Credit risk RWAs by exposure class

	Footnotes	Exposure value $bn	RWAs $bn	Capital required[2] $bn
IRB advanced approach		1,493.7	504.9	40.4
Retail:				
– secured by mortgages on immovable property SME		2.9	0.6	—
– secured by mortgages on immovable property non-SME		261.9	47.7	3.8
– qualifying revolving retail		65.3	15.1	1.2
– other SME		10.8	5.2	0.4
– other non-SME		45.2	10.7	0.9
Total retail		386.1	79.3	6.3
Central governments and central banks		350.2	50.7	4.1
Institutions		77.1	19.0	1.5
Corporates	6	589.5	321.4	25.7
Securitisation positions		37.2	21.1	1.7
Non-credit obligation assets		53.6	13.4	1.1
IRB foundation approach		46.3	28.8	2.3
Central governments and central banks		0.1	0.1	—
Institutions		0.3	0.1	—
Corporates		45.9	28.6	2.3
Standardised approach		601.3	317.6	25.4
Central governments and central banks		223.4	19.9	1.6
Institutions		34.3	13.8	1.1
Corporates		212.8	195.9	15.6
Retail		43.4	31.9	2.6
Secured by mortgages on immovable property		43.1	15.3	1.2
Exposures in default		5.0	6.4	0.5
Regional governments or local authorities		2.6	0.8	0.1
Equity	7	6.8	12.0	1.0
Items associated with particularly high risk		4.5	6.8	0.5
Securitisation positions		0.8	0.7	0.1
Claims in the form of collective investment undertakings ('CIUs')		0.5	0.5	—
Claims on institutions and corporates with a short-term credit assessment		0.1	—	—
International organisations		2.7	—	—
Multilateral development banks		0.2	—	—
Other items		21.1	13.6	1.1
At 30 Jun 2016		2,141.3	851.3	68.1

For footnotes, see page 108.

Counterparty credit risk RWAs by exposure class

	Footnotes	RWAs $bn	Capital required[2] $bn
IRB advanced approach		48.1	3.8
Central governments and central banks		2.8	0.2

Institutions		18.7	1.5
Corporates		26.6	2.1
IRB foundation approach		2.0	0.2
Corporates		2.0	0.2
Standardised approach		4.7	0.3
Institutions		0.4	—
Corporates		4.3	0.3
CVA advanced	8	3.5	0.3
CVA standardised	8	13.3	1.1
CCP standardised		2.1	0.2
At 30 Jun 2016		73.7	5.9

For footnotes, see page 108.

Capital (continued)

Market risk – RWAs and capital required

	RWAs	Capital required[2]
	$bn	$bn
Internal model based	35.8	2.8
VaR	6.9	0.6
Stressed VaR	9.6	0.7
Incremental risk charge	11.1	0.8
Other VaR and stressed VaR	8.2	0.7
Standardised approach	6.0	0.5
Interest rate position risk	2.4	0.2
Foreign exchange position risk	0.3	—
Equity position risk	1.0	0.1
Securitisation positions	2.3	0.2
At 30 Jun 2016	41.8	3.3

For footnote, see page 108.

Wholesale IRB exposure – by obligor grade[9] – Central governments and central banks

	Footnotes	CRR	PD range	Exposure value	Average exposure value	Undrawn commit-ments	Average PD[10]	Average LGD[10]	RWA density[10]	RWAs	Mapped external rating
			%	$bn	$bn	$bn	%	%	%	$bn	
Default risk											
Minimal		0.1	0.000 to 0.010	145.8	143.6	0.7	0.01	39.9	7	10.1	AAA
		1.1	0.011 to 0.028	116.3	112.6	0.7	0.02	45.0	6	7.5	AA+ to AA
		1.2	0.029 to 0.053	38.3	39.7	0.4	0.04	45.2	14	5.4	AA- to A+
Low		2.1	0.054 to 0.095	13.1	11.5	0.1	0.07	45.0	28	3.7	A
		2.2	0.096 to 0.169	10.4	11.0	0.2	0.13	45.0	30	3.1	A-
Satisfactory		3.1	0.170 to 0.285	4.5	4.2	—	0.22	44.5	38	1.7	BBB+
		3.2	0.286 to 0.483	0.4	3.3	—	0.37	45.0	50	0.2	BBB
		3.3		12.5	8.8	—	0.63	45.0	70	8.7	BBB-

			0.484 to 0.740								
Fair		4.1	0.741 to 1.022	0.1	0.1	—	0.87	45.0	100	0.1	BB+
		4.2	1.023 to 1.407	1.0	1.0	0.1	1.20	45.0	90	0.9	BB
		4.3	1.408 to 1.927	1.1	1.1	—	1.65	45.0	100	1.1	BB-
Moderate		5.1	1.928 to 2.620	1.8	3.6	0.9	2.25	45.0	111	2.0	BB-
		5.2	2.621 to 3.579	3.6	1.6	—	3.05	45.0	117	4.2	B+
		5.3	3.580 to 4.914	1.1	1.0	—	4.20	45.0	136	1.5	B
Significant		6.1	4.915 to 6.718	—	—	—	—	—	—	—	B
		6.2	6.719 to 8.860	0.3	0.5	—	7.85	45.0	200	0.6	B-
High		7.1	8.861 to 11.402	—	0.3	—	10.00	45.0	—	—	CCC+
		7.2	11.403 to 15.000	—	—	—	—	—	—	—	CCC+
Special management		8.1	15.001 to 22.000	—	—	—	—	—	—	—	CCC+
		8.2	22.001 to 50.000	—	—	—	—	—	—	—	CCC+
		8.3	50.001 to 99.999	—	—	—	—	—	—	—	CCC to C
Default	11	9/10	100.0	—	—	—	—	—	—	—	Default
				350.3	343.9	3.1	0.12	42.9	15	50.8	

At 30 Jun
2016
For footnotes, see page 108.

Wholesale IRB exposure – by obligor grade[9] – Institutions

	Footnotes	CRR	PD range	Exposure value	Average exposure value	Undrawn commit-ments	Average PD[10]	Average LGD[10]	RWA density[10]	RWAs	Mapped external rating
			%	$bn	$bn	$bn	%	%	%	$bn	
Default risk											
Minimal		0.1	0.000 to 0.010	0.8	1.8	0.1	0.03	45.7	13	0.1	AAA
		1.1	0.011 to 0.028	16.1	15.4	1.4	0.03	37.1	11	1.7	AA+ to AA
		1.2	0.029 to 0.053	27.5	31.3	3.8	0.04	40.8	13	3.5	AA-
Low		2.1	0.054 to 0.095	10.6	16.0	4.4	0.07	40.4	21	2.2	A+ to A
		2.2	0.096 to 0.169	11.7	10.5	3.6	0.13	37.3	26	3.1	A-
Satisfactory		3.1	0.170 to 0.285	2.0	2.7	1.5	0.22	40.9	40	0.8	BBB+
		3.2	0.286 to 0.483	2.7	3.5	0.6	0.37	46.0	59	1.6	BBB
		3.3	0.484 to 0.740	2.7	2.6	0.7	0.63	45.3	104	2.8	BBB-
Fair		4.1	0.741 to 1.022	2.2	1.2	0.7	0.87	43.7	91	2.0	BB+
		4.2	1.023 to 1.407	0.5	0.5	0.2	1.20	45.6	100	0.5	BB
		4.3	1.408 to 1.927	0.2	0.2	0.1	1.65	46.4	100	0.2	BB-
Moderate		5.1	1.928 to 2.620	0.1	0.1	0.2	2.25	48.5	100	0.1	BB-
		5.2	2.621 to 3.579	0.1	0.1	—	3.05	45.0	100	0.1	B+
		5.3		0.1	0.1	—	4.20	18.7	—	—	B

			3.580 to 4.914								
Significant		6.1	4.915 to 6.718	0.1	—	—	5.75	45.5	100	0.1	B-
		6.2	6.719 to 8.860	—	—	—	—	—	—	—	B-
High		7.1	8.861 to 11.402	—	—	—	10.00	45.4	—	0.1	CCC+
		7.2	11.403 to 15.000	—	—	—	—	—	—	—	CCC+
Special management		8.1	15.001 to 22.000	—	—	—	—	—	—	—	CCC
		8.2	22.001 to 50.000	—	—	0.2	35.97	54.9	—	0.1	CCC- to CC
		8.3	50.001 to 99.999	—	—	—	—	—	—	—	C
Default	11	9/10	100.0	—	—	—	100.00	45.0	—	0.1	Default
At 30 Jun 2016				77.4	86.0	17.5	0.20	40.0	25	19.1	

For footnotes, see page 108.

Wholesale IRB exposure – by obligor grade[9] – Corporates[12]

	Footnotes	CRR	PD range	Exposure value	Average exposure value	Undrawn commit-ments	Average PD[10]	Average LGD[10]	RWA density[10]	RWAs	Mapped external rating
			%	$bn	$bn	$bn	%	%	%	$bn	
Default risk											
Minimal		0.1	0.000 to 0.010	—	—	—	—	—	—	—	
		1.1	0.011 to 0.028	19.4	14.8	13.8	0.03	27.5	12	2.4	AAA to AA
		1.2	0.029 to 0.053	43.2	49.5	37.2	0.04	36.8	14	6.2	AA-
Low		2.1	0.054 to	63.8	64.8	57.0	0.07	40.3	22	14.0	A+ to A

		0.095								
	2.2	0.096 to 0.169	74.3	80.0	65.6	0.13	39.3	31	23.0	A-
Satisfactory	3.1	0.170 to 0.285	75.0	76.6	61.9	0.22	39.3	40	30.2	BBB+
	3.2	0.286 to 0.483	69.5	72.9	52.7	0.37	39.4	51	35.3	BBB
	3.3	0.484 to 0.740	65.6	69.4	43.9	0.63	36.3	60	39.4	BBB-
Fair	4.1	0.741 to 1.022	44.2	43.6	31.4	0.87	39.1	74	32.9	BB+
	4.2	1.023 to 1.407	33.6	35.4	22.6	1.20	39.8	85	28.3	BB
	4.3	1.408 to 1.927	35.0	32.5	18.4	1.65	33.7	84	29.3	BB-
Moderate	5.1	1.928 to 2.620	27.7	27.4	15.8	2.24	35.5	92	25.6	BB-
	5.2	2.621 to 3.579	12.8	12.5	8.9	3.06	36.8	106	13.6	B+
	5.3	3.580 to 4.914	10.7	11.4	8.2	4.14	38.4	118	12.6	B
Significant	6.1	4.915 to 6.718	7.6	6.8	6.8	5.73	37.8	130	9.9	B-
	6.2	6.719 to 8.860	4.6	3.9	2.0	7.85	37.1	146	6.7	B-
High	7.1	8.861 to 11.402	2.9	2.6	1.3	10.01	36.6	155	4.5	CCC+
	7.2	11.403 to 15.000	0.8	1.0	0.5	13.00	31.8	150	1.2	CCC+
Special management	8.1	15.001 to	1.8	1.2	1.2	19.00	32.6	178	3.2	CCC

			22.000									
		8.2	22.001 to 50.000	0.5	0.5	0.1		35.86	34.9	200	1.0	CCC- to CC
		8.3	50.001 to 99.999	0.3	0.3	0.1		75.00	41.4	133	0.4	C
Default	11	9/10	100.0	7.9	7.4	1.2		100.00	44.3	82	6.5	Default
At 30 Jun 2016				601.2	614.5	450.6		2.28	37.9	54	326.2	

For footnote, see page 108.

Capital (continued)

Retail IRB exposure – by internal PD band

	PD range	Exposure value	Average exposure value	Undrawn commit-ments	Average PD_{10}	Average LGD_{10}	RWA $density_{10}$	RWAs
	%	$bn	$bn	$bn	%	%	%	$bn
At 30 Jun 2016								
Secured by mortgages on immovable property SME								
Band 1	0.000 to 0.483	0.6	0.6	—	0.16	12.7	—	—
Band 2	0.484 to 1.022	0.5	0.5	0.1	0.76	19.5	20	0.1
Band 3	1.023 to 4.914	1.2	1.3	—	2.29	19.8	25	0.3
Band 4	4.915 to 8.860	0.3	0.2	—	6.76	22.4	33	0.1
Band 5	8.861 to 15.000	0.1	0.1	—	11.02	27.8	—	—
Band 6	15.001 to 50.000	0.1	0.1	—	24.62	20.5	100	0.1
Band 7	50.001 to 100.000	0.1	0.2	—	100.00	18.7	—	—
		2.9	3.0	0.1	5.56	18.6	21	0.6
Secured by mortgages on immovable property non-SME								
Band 1	0.000 to 0.483	206.9	210.2	16.2	0.12	15.4	8	15.8
Band 2	0.484 to 1.022	22.0	23.2	1.0	0.71	21.3	26	5.7
Band 3	1.023 to 4.914	20.4	22.4	0.7	1.94	25.0	55	11.3
Band 4	4.915 to 8.860	4.3	5.3	—	5.69	28.1	116	5.0
Band 5	8.861 to 15.000	1.1	1.2	0.1	11.82	26.4	164	1.8
Band 6	15.001 to 50.000	1.9	2.2	—	25.20	46.1	300	5.7
Band 7	50.001 to 100.000	5.3	5.7	—	98.29	46.2	45	2.4
		261.9	270.2	18.0	2.63	17.8	18	47.7
Qualifying revolving retail exposures								
Band 1	0.000 to 0.483	47.4	48.4	84.5	0.12	93.3	7	3.3
Band 2		6.9	7.0	6.6	0.71	92.6	29	2.0

	0.484 to 1.022							
Band 3	1.023 to 4.914	8.7	8.9	5.7	2.22	90.6	66	5.7
Band 4	4.915 to 8.860	1.2	1.3	0.5	6.65	90.1	142	1.7
Band 5	8.861 to 15.000	0.4	0.4	0.2	11.11	92.1	200	0.8
Band 6	15.001 to 50.000	0.5	0.5	0.1	23.32	91.3	260	1.3
Band 7	50.001 to 100.000	0.2	0.2	0.1	88.94	70.5	150	0.3
		65.3	66.7	97.7	1.16	92.7	23	15.1
Other SME								
Band 1	0.000 to 0.483	1.3	1.5	0.8	0.29	60.6	23	0.3
Band 2	0.484 to 1.022	1.9	2.0	0.8	0.75	50.6	37	0.7
Band 3	1.023 to 4.914	5.0	5.3	1.3	2.57	52.7	56	2.8
Band 4	4.915 to 8.860	1.2	1.2	0.3	6.62	49.2	58	0.7
Band 5	8.861 to 15.000	0.4	0.5	0.1	10.81	58.4	100	0.4
Band 6	15.001 to 50.000	0.3	0.2	—	25.47	60.1	100	0.3
Band 7	50.001 to 100.000	0.7	0.8	0.1	99.72	38.8	—	—
		10.8	11.5	3.4	9.92	52.4	48	5.2
Other non-SME								
Band 1	0.000 to 0.483	26.4	26.7	11.3	0.18	26.4	11	2.8
Band 2	0.484 to 1.022	6.7	6.7	1.5	0.66	31.4	27	1.8
Band 3	1.023 to 4.914	9.7	10.1	1.4	1.92	30.4	41	4.0
Band 4	4.915 to 8.860	0.9	0.9	0.1	7.14	54.9	89	0.8
Band 5	8.861 to 15.000	0.5	0.5	—	12.00	63.9	120	0.6
Band 6	15.001 to 50.000	0.4	0.4	—	28.04	60.1	125	0.5
Band 7	50.001 to 100.000	0.6	0.6	—	96.61	59.9	33	0.2
		45.2	45.9	14.3	2.36	29.6	24	10.7
Total retail								
Band 1	0.000 to 0.483	282.6	287.4	112.8	0.13	29.7	8	22.2

Band 2	0.484 to 1.022	38.0	39.4	10.0		0.70	37.4	27	10.3
Band 3	1.023 to 4.914	45.0	48.0	9.1		2.07	41.8	54	24.1
Band 4	4.915 to 8.860	7.9	8.9	0.9		6.18	43.8	105	8.3
Band 5	8.861 to 15.000	2.5	2.7	0.4		11.53	49.9	144	3.6
Band 6	15.001 to 50.000	3.2	3.4	0.1		25.23	55.4	247	7.9
Band 7	50.001 to 100.000	6.9	7.5	0.2		98.00	47.0	42	2.9
		386.1	397.3	133.5		2.58	32.8	21	79.3

For footnote, see page 108.

Regulatory balance sheet

Regulatory and accounting consolidations

The basis of consolidation for the purpose of financial accounting under IFRSs, described in Note 1 on the Financial Statements, differs from that used for regulatory purposes as described below. The following table provides a reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation.

Interests in banking associates are equity accounted in the financial accounting consolidation, whereas their exposures are proportionally consolidated for regulatory purposes by including our share of assets, liabilities, profit and loss, and RWAs in accordance with the PRA's application of Capital Requirements Directive IV ('CRD IV').

Subsidiaries engaged in insurance activities are excluded from the regulatory consolidation by excluding assets, liabilities and post-acquisition reserves, leaving the investment of these insurance subsidiaries to be recorded at cost and deducted from CET1 (subject to thresholds).

The regulatory consolidation also excludes special purpose entities ('SPEs') where significant risk has been transferred to third parties. Exposures to these SPEs are risk-weighted as securitisation positions for regulatory purposes.

Entities in respect of which the basis of consolidation for financial accounting purposes differs from that used for regulatory purposes can be found in table 5 of our Pillar 3 Disclosures 2015 document.

Reconciliation of balance sheets – financial accounting to regulatory scope of consolidation

	Ref*	Accounting balance sheet $m	Deconsolidation of insurance/ other entities $m	Consolidation of banking associates $m	Regulatory balance sheet $m
Assets					
Cash and balances at central banks		128,272	(1)	26,726	154,997
Items in the course of collection from other banks		6,584	—	27	6,611
Hong Kong Government certificates of indebtedness		29,011	—	—	29,011
Trading assets		280,295	(87)	3,049	283,257
Financial assets designated at fair value		23,901	(23,539)	—	362
Derivatives		369,942	(175)	1,068	370,835
Loans and advances to banks		92,199	(2,894)	15,660	104,965
Loans and advances to customers		887,556	(5,116)	122,664	1,005,104
Of which:					
– impairment allowances on IRB portfolios	h	(6,026)	—	—	(6,026)
– impairment allowances on standardised portfolios		(2,927)	—	(2,818)	(5,745)
Reverse repurchase agreements – non-trading		187,826	425	2,621	190,872
Financial investments		441,399	(54,824)	50,181	436,756
Assets held for sale		50,305	(5,291)	—	45,014
Of which:					
– goodwill and intangible assets	e	2,027	(268)	—	1,759
– impairment allowances		(2,220)	—	—	(2,220)
Of which:					

– IRB portfolios	h	(146)	—	—	(146)
– standardised portfolios		(2,074)	—	—	(2,074)
Capital invested in insurance and other entities		—	2,347	—	2,347
Current tax assets		714	(26)	—	688
Prepayments, accrued income and other assets		60,569	(2,603)	9,560	67,526
Of which:					
– retirement benefit assets	i	5,781	—	—	5,781
Interests in associates and joint ventures		19,606	—	(19,014)	592
Of which:					
– positive goodwill on acquisition	e	574	—	(560)	14
Goodwill and intangible assets	e	24,053	(6,471)	616	18,198
Deferred tax assets	f	5,917	163	491	6,571
Total assets at 30 Jun 2016		2,608,149	(98,092)	213,649	2,723,706

* The references (a) to (q) identify balance sheet components which are used in the calculation of regulatory capital on page 107.

Capital (continued)

	Ref*	Accounting balance sheet $m	Deconsolidation of insurance/ other entities $m	Consolidation of banking associates $m	Regulatory balance sheet $m
Liabilities and equity					
Hong Kong currency notes in circulation		29,011	—	—	29,011
Deposits by banks		69,900	(44)	48,095	117,951
Customer accounts		1,290,958	(43)	148,867	1,439,782
Repurchase agreements – non-trading		98,342	—	—	98,342
Items in the course of transmission to other banks		7,461	—	—	7,461
Trading liabilities		188,698	700	36	189,434
Financial liabilities designated at fair value		78,882	(6,025)	—	72,857
Of which:					
– term subordinated debt included in tier 2 capital	n,q	22,049	—	—	22,049
– preferred securities included in tier 1 capital	m	420	—	—	420
Derivatives		368,414	277	1,041	369,732
Debt securities in issue		87,673	(6,560)	6,294	87,407
Liabilities of disposal groups held for sale		43,705	(4,765)	145	39,085
Current tax liabilities		1,569	(122)	457	1,904
Liabilities under insurance contracts		73,416	(73,416)	—	—
Accruals, deferred income and other liabilities		42,057	2,177	5,869	50,103
Of which:					
– retirement benefit liabilities		3,064	(3)	51	3,112
Provisions		5,797	(19)	—	5,778
Of which:					
– contingent liabilities and contractual commitments		256	—	—	256
Of which:					
– credit-related provisions on IRB portfolios	h	227	—	—	227
– credit-related provisions on standardised portfolios		29	—	—	29
Deferred tax liabilities		2,300	(991)	4	1,313
Subordinated liabilities		21,669	1	2,841	24,511
Of which:					
– preferred securities included in tier 1 capital	k,m	1,832	—	—	1,832
– perpetual subordinated debt included in tier 2 capital	o	1,968	—	—	1,968
– term subordinated debt included in tier 2 capital	n,q	17,253	—	—	17,253

Total liabilities at 30 Jun 2016	o	2,409,852	(88,830)	213,649	2,534,671
Called up share capital	a	9,906	(1,036)	—	8,870
Share premium account	a,k	12,772	(182)	—	12,590
Other equity instruments	j,k	17,110	2,972	—	20,082
Other reserves	c,g	5,759	1,245	—	7,004
Retained earnings	b,c	145,710	(11,275)	—	134,435
Total shareholders' equity		191,257	(8,276)	—	182,981
Non-controlling interests	d,l,m,p	7,040	(986)	—	6,054
Of which:					
– non-cumulative preference shares issued by subsidiaries included in tier 1 capital	m	270	—	—	270
Total equity at 30 Jun 2016		198,297	(9,262)	—	189,035
Total liabilities and equity at 30 Jun 2016		2,608,149	(98,092)	213,649	2,723,706

* The references (a) to (q) identify balance sheet components which are used in the calculation of regulatory capital on page 107.

HSBC HOLDINGS PLC
107

Capital

Transitional own funds disclosure

Ref *		Ref†	At 30 Jun 2016 $m	CRD IV prescribed residual amount $m	Final CRD IV text $m
	Common equity tier 1 ('CET1') capital: instruments and reserves				
1	Capital instruments and the related share premium accounts		21,273		21,273
	Of which: ordinary shares	a	21,273		21,273
2	Retained earnings	b	138,347		138,347
3	Accumulated other comprehensive income (and other reserves)	c	(2,066)		(2,066)
5	Minority interests (amount allowed in consolidated CET1)	d	3,659		3,659
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	b	4,905		4,905
6	Common equity tier 1 capital before regulatory adjustments		166,118		166,118
	Common equity tier 1 capital: regulatory adjustments				
7	Additional value adjustments		(1,507)		(1,507)
8	Intangible assets (net of related deferred tax liability)	e	(20,086)		(20,086)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	f	(1,475)		(1,475)
11	Fair value reserves related to gains or losses on cash flow hedges	g	(408)		(408)
12	Negative amounts resulting from the calculation of expected loss amounts	h	(5,073)		(5,073)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing		(1,670)		(1,670)
15	Defined-benefit pension fund assets	i	(4,290)		(4,290)
16	Direct and indirect holdings of own CET1 instruments		(939)		(939)
28	Total regulatory adjustments to common equity tier 1		(35,448)	—	(35,448)
29	Common equity tier 1 capital		130,670	—	130,670
	Additional tier 1 ('AT1') capital: instruments				
30	Capital instruments and the related share premium accounts		11,259	—	11,259
31	Of which: classified as equity under IFRSs	j	11,259	—	11,259
33	Amount of qualifying items and the related share premium accounts subject to phase out from AT1	k	7,946	(7,946)	—
34	Qualifying tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	l,m	2,579	(2,403)	176
35	Of which: instruments issued by subsidiaries subject to phase out	m	1,665	(1,665)	—
36	Additional tier 1 capital before regulatory adjustments		21,784	(10,349)	11,435
	Additional tier 1 capital: regulatory adjustments				

37	Direct and indirect holdings of own AT1 instruments		(60)		(60)
41b	Residual amounts deducted from AT1 capital with regard to deduction from tier 2 ('T2') capital during the transitional period		(82)	82	—
	Of which: direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities		(82)	82	—
43	Total regulatory adjustments to additional tier 1 capital		(142)	82	(60)
44	Additional tier 1 capital		21,642	(10,267)	11,375
45	Tier 1 capital (T1 = CET1 + AT1)		152,312	(10,267)	142,045
	Tier 2 capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	n	16,840		16,840
47	Amount of qualifying items and the related share premium accounts subject to phase out from T2	o	5,695	(5,695)	—
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	p,q	12,314	(12,262)	52
49	Of which: instruments issued by subsidiaries subject to phase out	q	12,283	(12,283)	—
51	Tier 2 capital before regulatory adjustments		34,849	(17,957)	16,892

Capital (continued)

Ref *		Ref[1] At 30 Jun 2016 $m	CRD IV prescribed residual amount $m	Final CRD IV text $m
	Tier 2 capital: regulatory adjustments			
52	Direct and indirect holdings of own T2 instruments	(40)		(40)
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	(328)	(82)	(410)
57	Total regulatory adjustments to tier 2 capital	(368)	(82)	(450)
58	Tier 2 capital	34,481	(18,039)	16,442
59	Total capital (TC = T1 + T2)	186,793	(28,306)	158,487
60	Total risk-weighted assets	1,082,184	—	1,082,184
	Capital ratios and buffers			
61	Common equity tier 1[1]	12.1%		12.1%
62	Tier 1	14.1%		13.1%
63	Total capital	17.3%		14.6%
64	Institution specific buffer requirement	1.3%		
	Of which:			
65	– capital conservation buffer requirement	0.6%		
66	– countercyclical buffer requirement	0.1%		
67a	– Global Systemically Important Institution (‘G-SII’) or Other Systemically Important Institution (‘O-SII’) buffer	0.6%		
68	Common equity tier 1 available to meet buffers	6.3%		
	Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	2,940		
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	3,461		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	7,605		
	Applicable caps on the inclusion of provisions in tier 2			
77		4,030		

	Cap on inclusion of credit risk adjustments in T2 under standardised approach	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	3,404
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	
82	Current cap on AT1 instruments subject to phase out arrangements	10,382
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	201
84	Current cap on T2 instruments subject to phase out arrangements	17,978
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	5,501

* The references identify the lines prescribed in the EBA template which are applicable and where there is a value.

† The references (a) to (q) identify balance sheet components on page 105 which are used in the calculation of regulatory capital.

A list of the features of our capital instruments in accordance with Annex III of Commission Implementing Regulation 1423/2013 is published on our website with reference to

our balance sheet at 30 June 2016, along with the full terms and conditions.

Footnotes to Capital

1 Since 1 January 2015 the CRD IV transitional CET1 and end point CET1 capital ratios have been aligned for HSBC Holdings plc.
2 'Capital required' represents the Pillar 1 capital charge at 8% of RWAs.
3 Book size now includes market risk movements previously categorised as movements in risk levels.
4 This includes dividends on ordinary shares, quarterly dividends on preference shares and coupons on capital securities, classified as equity.
5 RWAs are non-additive across geographical regions due to market risk diversification effects within the Group.
6 'Corporates' includes specialised lending exposures subject to a supervisory slotting approach of $34.2bn and RWAs of $23.8bn.
7 This includes investment in insurance companies which are risk weighted at 250%.
8 The RWA impact due to the CVA capital charge is calculated based on the exposures under the IRB and standardised approaches. No additional exposures are taken into account.
9 For a definition of obligor grade refer to our Capital and Risk Management Pillar 3 disclosures 2015, where a glossary of terms can be found.
10 Average PD, average LGD and RWA density percentages represent an exposure weighted average.
11 There is a requirement to hold additional capital for unexpected losses on defaulted exposures where LGD exceeds our best estimate of EL. As a result, in some cases RWAs arise for exposures in default.
12 Excludes specialised lending exposures subject to a supervisory slotting approach of $34.2bn and RWAs of $23.8bn.

Financial Statements (unaudited)

Financial Statements
Consolidated income statement
for the half-year to 30 June 2016

		Half-year to		
		30 Jun 2016	30 Jun 2015	31 Dec 2015
	Notes	$m	$m	$m
Interest income		23,011	24,019	23,170
Interest expense		(7,251)	(7,575)	(7,083)
Net interest income		15,760	16,444	16,087
Fee income		8,202	9,372	8,644
Fee expense		(1,616)	(1,647)	(1,664)
Net fee income		6,586	7,725	6,980
Trading income excluding net interest income		4,594	3,520	3,428
Net interest income on trading activities		730	1,053	722
Net trading income		5,324	4,573	4,150
Changes in fair value of long-term debt issued and related derivatives		270	1,324	(461)
Net income/(expense) from other financial instruments designated at fair value		291	1,342	(673)
Net income/(expense) from financial instruments designated at fair value		561	2,666	(1,134)
Gains less losses from financial investments		965	1,874	194
Dividend income		64	68	55
Net insurance premium income		5,356	5,607	4,748
Other operating income		644	836	219
Total operating income		35,260	39,793	31,299
Net insurance claims and benefits paid and movement in liabilities to policyholders		(5,790)	(6,850)	(4,442)
Net operating income before loan impairment charges and other credit risk provisions		29,470	32,943	26,857
Loan impairment charges and other credit risk provisions		(2,366)	(1,439)	(2,282)
Net operating income		27,104	31,504	24,575
Employee compensation and benefits		(9,354)	(10,041)	(9,859)
General and administrative expenses		(7,467)	(8,129)	(9,533)
Depreciation and impairment of property, plant and equipment		(605)	(604)	(665)
Amortisation and impairment of intangible assets and goodwill		(1,202)	(413)	(524)

Total operating expenses		(18,628)	(19,187)	(20,581)
Operating profit		8,476	12,317	3,994
Share of profit in associates and joint ventures		1,238	1,311	1,245
Profit before tax		9,714	13,628	5,239
Tax expense		(2,291)	(2,907)	(864)
Profit for the period		7,423	10,721	4,375
Profit attributable to shareholders of the parent company		6,912	9,618	3,904
Profit attributable to non-controlling interests		511	1,103	471
		$	$	$
Basic earnings per ordinary share	3	0.32	0.48	0.17
Diluted earnings per ordinary share	3	0.32	0.48	0.17

The accompanying notes on pages 115 to 146 form an integral part of these financial statements[1].
For footnote, see page 114.

Financial Statements (unaudited) (continued)

Consolidated statement of comprehensive income
for the half-year to 30 June 2016

	Half-year to		
	30 Jun 2016 $m	30 Jun 2015 $m	31 Dec 2015 $m
Profit for the period	7,423	10,721	4,375
Other comprehensive income/(expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Available-for-sale investments	1,010	(2,445)	(627)
– fair value gains/(losses)	2,826	(355)	(876)
– fair value gains reclassified to the income statement	(1,228)	(2,317)	(120)
– amounts reclassified to the income statement in respect of impairment losses	24	2	125
– income taxes	(612)	225	244
Cash flow hedges	340	(150)	126
– fair value (losses)/gains	(1,796)	341	363
– fair value losses/(gains) reclassified to the income statement	2,242	(538)	(167)
– income taxes	(106)	47	(70)
Share of other comprehensive (expense)/income of associates and joint ventures	(1)	2	(11)
– share for the period	(1)	2	(11)
– reclassified to income statement on disposal	—	—	—
Exchange differences	(2,713)	(3,267)	(7,678)
– other exchange differences	(2,619)	(3,395)	(7,717)
– income tax attributable to exchange differences	(94)	128	39
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/liability	416	(1,680)	1,781
– before income taxes	533	(2,085)	2,215
– income taxes	(117)	405	(434)
Other comprehensive expense for the period, net of tax	(948)	(7,540)	(6,409)
Total comprehensive income/(expense) for the period	6,475	3,181	(2,034)
Attributable to:			
– shareholders of the parent company	6,010	2,856	(2,396)
– non-controlling interests	465	325	362
Total comprehensive income/(expense) for the period	6,475	3,181	(2,034)

The accompanying notes on pages 115 to 146 form an integral part of these financial statements[1].
For footnote, see page 114.

HSBC HOLDINGS PLC
111

Consolidated balance sheet
at 30 June 2016

	Notes	At 30 Jun 2016 $m	31 Dec 2015 $m
Assets			
Cash and balances at central banks		128,272	98,934
Items in the course of collection from other banks		6,584	5,768
Hong Kong Government certificates of indebtedness		29,011	28,410
Trading assets	5	280,295	224,837
Financial assets designated at fair value	8	23,901	23,852
Derivatives	9	369,942	288,476
Loans and advances to banks		92,199	90,401
Loans and advances to customers		887,556	924,454
Reverse repurchase agreements – non-trading		187,826	146,255
Financial investments	10	441,399	428,955
Assets held for sale	11	50,305	43,900
Prepayments, accrued income and other assets		60,569	54,398
Current tax assets		714	1,221
Interests in associates and joint ventures	13	19,606	19,139
Goodwill and intangible assets		24,053	24,605
Deferred tax assets		5,917	6,051
Total assets		2,608,149	2,409,656
Liabilities and equity			
Liabilities			
Hong Kong currency notes in circulation		29,011	28,410
Deposits by banks		69,900	54,371
Customer accounts		1,290,958	1,289,586
Repurchase agreements – non-trading		98,342	80,400
Items in the course of transmission to other banks		7,461	5,638
Trading liabilities	14	188,698	141,614
Financial liabilities designated at fair value		78,882	66,408
Derivatives	9	368,414	281,071
Debt securities in issue		87,673	88,949
Liabilities of disposal groups held for sale	11	43,705	36,840
Accruals, deferred income and other liabilities		42,057	38,116
Current tax liabilities		1,569	783
Liabilities under insurance contracts		73,416	69,938
Provisions	16	5,797	5,552
Deferred tax liabilities	17	2,300	1,760
Subordinated liabilities		21,669	22,702
Total liabilities		2,409,852	2,212,138
Equity			

Called up share capital	9,906	9,842
Share premium account	12,772	12,421
Other equity instruments	17,110	15,112
Other reserves	5,759	7,109
Retained earnings	145,710	143,976
Total shareholders’ equity	191,257	188,460
Non-controlling interests	7,040	9,058
Total equity	198,297	197,518
Total liabilities and equity	2,608,149	2,409,656

The accompanying notes on pages 115 to 146 form an integral part of these financial statements[1].

For footnote, see page 114.

Financial Statements (unaudited) (continued)

Consolidated statement of cash flows
for the half-year to 30 June 2016

	Half-year to 30 Jun 2016 $m	30 Jun 2015 $m	31 Dec 2015 $m
Cash flows from operating activities			
Profit before tax	9,714	13,628	5,239
Adjustments for:			
– net gain from investing activities	(1,034)	(1,926)	(9)
– share of profit in associates and joint ventures	(1,238)	(1,311)	(1,245)
– other non-cash items included in profit before tax	5,817	4,522	6,243
– change in operating assets	7,268	12,077	53,751
– change in operating liabilities	59,093	(15,544)	(91,218)
– elimination of exchange differences[2]	(3,193)	3,951	14,357
– dividends received from associates	619	770	109
– contributions paid to defined benefit plans	(340)	(226)	(438)
– tax paid	(1,668)	(1,351)	(2,501)
Net cash generated from/(used in) operating activities	75,038	14,590	(15,712)
Cash flows from investing activities			
Purchase of financial investments	(233,153)	(211,669)	(226,707)
Proceeds from the sale and maturity of financial investments	216,340	208,637	190,999
Purchase of property, plant and equipment	(429)	(620)	(732)
Proceeds from the sale of property, plant and equipment	40	56	47
Net cash inflow from disposal of customer and loan portfolios	4,186	321	1,702
Net purchase of intangible assets	(395)	(400)	(554)
Net cash inflow from disposal of subsidiaries, businesses, associates and joint ventures	16	6	2
Net cash used in investing activities	(13,395)	(3,669)	(35,243)
Cash flows from financing activities			
Issue of ordinary share capital	8	9	138
Net (purchases)/sales of own shares for market-making and investment purposes	(78)	139	192
Issue of other equity instruments	1,998	2,459	1,120
Redemption of preference shares and other equity instruments	(1,825)	(462)	—
Subordinated loan capital issued	1,129	1,680	1,500
Subordinated loan capital repaid	(546)	(778)	(1,379)
Dividends paid to ordinary shareholders of the parent company	(3,729)	(1,834)	(4,714)
Dividends paid to non-controlling interests	(702)	(386)	(311)
Dividends paid to holders of other equity instruments	(556)	(428)	(522)
Net cash generated (used in)/from financing activities	(4,301)	399	(3,976)

Net increase/(decrease) in cash and cash equivalents	57,342	11,320	(54,931)
Cash and cash equivalents at the beginning of the period	243,863	301,301	308,792
Exchange differences in respect of cash and cash equivalents	(1,452)	(3,829)	(9,998)
Cash and cash equivalents at the end of the period	299,753	308,792	243,863

The accompanying notes on pages 115 to 146 form an integral part of these financial statements[1].
For footnote, see page 114.

Consolidated statement of changes in equity
for the half-year to 30 June 2016

					Other reserves					
	Called up share capital	Share premium	Other equity instru-ments[3]	Retained earnings	Available-for-sale fair value reserve[4]	Cash flow hedging reserve[4]	Foreign exchange reserve[4]	Merger reserve	Total share-holders' equity	Non-controlling interests[5]
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
At 1 Jan 2016	9,842	12,421	15,112	143,976	(189)	34	(20,044)	27,308	188,460	9,058
Profit for the period	—	—	—	6,912	—	—	—	—	6,912	511
Other comprehensive income (net of tax)	—	—	—	451	1,024	341	(2,718)	—	(902)	(46
– available-for-sale investments	—	—	—	—	1,024	—	—	—	1,024	(14
– cash flow hedges	—	—	—	—	—	341	—	—	341	(1
– remeasurement of defined benefit asset/liability	—	—	—	452	—	—	—	—	452	(36
– share of other comprehensive income of associates & joint ventures	—	—	—	(1)	—	—	—	—	(1)	—
– exchange differences	—	—	—	—	—	—	(2,718)	—	(2,718)	5
Total comprehensive income for the period	—	—	—	7,363	1,024	341	(2,718)	—	6,010	465
Shares issued under employee remuneration and share plans	32	383	—	(407)	—	—	—	—	8	—
Shares issued in lieu of dividends and amounts arising thereon	32	(32)	—	1,111	—	—	—	—	1,111	—
Dividends to shareholders	—	—	—	(6,674)	—	—	—	—	(6,674)	(702
Capital securities issued	—	—	1,998	—	—	—	—	—	1,998	—
	—	—	—	305	—	—	—	—	305	—

Cost of share-based payment arrangements										
Other movements	—	—	—	36	3	—	—	—	39	(1,781
At 30 Jun 2016	9,906	12,772	17,110	145,710	838	375	(22,762)	27,308	191,257	7,040
At 1 Jan 2015	9,609	11,918	11,532	137,144	2,143	58	(9,265)	27,308	190,447	9,531
Profit for the period	—	—	—	9,618	—	—	—	—	9,618	1,103
Other comprehensive income (net of tax)	—	—	—	(1,693)	(1,735)	(151)	(3,183)	—	(6,762)	(778
– available-for-sale investments	—	—	—	—	(1,735)	—	—	—	(1,735)	(710
– cash flow hedges	—	—	—	—	—	(151)	—	—	(151)	1
– remeasurement of defined benefit asset/liability	—	—	—	(1,695)	—	—	—	—	(1,695)	15
– share of other comprehensive income of associates & joint ventures	—	—	—	2	—	—	—	—	2	—
– exchange differences	—	—	—	—	—	—	(3,183)	—	(3,183)	(84
Total comprehensive income for the period	—	—	—	7,925	(1,735)	(151)	(3,183)	—	2,856	325
Shares issued under employee remuneration and share plans	31	490	—	(512)	—	—	—	—	9	—
Shares issued in lieu of dividends and amounts arising thereon	118	(118)	—	2,242	—	—	—	—	2,242	—
Dividends to shareholders	—	—	—	(6,224)	—	—	—	—	(6,224)	(432
Capital securities issued	—	—	2,459	—	—	—	—	—	2,459	—
Cost of share-based payment	—	—	—	444	—	—	—	—	444	—

arrangements										
Other movements	—	—	—	189	5	—	—	—	194	(469
At 30 Jun 2015	9,758	12,290	13,991	141,208	413	(93	)(12,448	)27,308	192,427	8,955

Consolidated statement of changes in equity for the half-year to 30 June 2016 (continued)

	Called up share capital	Share premium	Other equity instru-ments	Retained earnings	Other reserves Available-for-sale fair value reserve[4]	Cash flow hedging reserve[4]	Foreign exchange reserve[4]	Merger reserve	Total share-holders' equity	Non-controlling interests
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
At 1 Jul 2015	9,758	12,290	13,991	141,208	413	(93)	(12,448)	27,308	192,427	8,955
Profit for the period	—	—	—	3,904	—	—	—	—	3,904	471
Other comprehensive income (net of tax)	—	—	—	1,766	(597)	127	(7,596)	—	(6,300)	(109)
– available-for-sale investments	—	—	—	—	(597)	—	—	—	(597)	(30)
– cash flow hedges	—	—	—	—	—	127	—	—	127	(1)
– remeasurement of defined benefit asset/liability	—	—	—	1,777	—	—	—	—	1,777	4
– share of other comprehensive income of associates & joint ventures	—	—	—	(11)	—	—	—	—	(11)	—
– exchange differences	—	—	—	—	—	—	(7,596)	—	(7,596)	(82)
Total comprehensive income for the period	—	—	—	5,670	(597)	127	(7,596)	—	(2,396)	362
Shares issued under employee remuneration and share plans	14	201	—	(77)	—	—	—	—	138	—
Shares issued in lieu of dividends and amounts arising thereon	70	(70)	—	920	—	—	—	—	920	—
Dividends to shareholders	—	—	—	(4,436)	—	—	—	—	(4,436)	(265)
Capital securities issued	—	—	1,121	—	—	—	—	—	1,121	—
Cost of share-based payment	—	—	—	313	—	—	—	—	313	—

arrangements										
Other movements	—	—	—	378	(5)	—	—	—	373	6
At 31 Dec 2015	9,842	12,421	15,112	143,976	(189)	34	(20,044)	27,308	188,460	9,058

The accompanying notes on pages 115 to 146 form an integral part of these financial statements[1].

Footnotes to financial statements

1 The tables ‘Gross loans and advances to customers by industry sector and by geographical region’ (see page 68) and ‘Movement in impairment allowances on loans and advances to customers and banks’ (see page 73) also form an integral part of these financial statements.

2 Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.

3 During June 2016, HSBC Holdings issued $2,000m of perpetual subordinated contingent convertible capital securities, after issuance costs of $6m and tax benefits of $4m, which are classified as equity under IFRSs.

4 At 30 June 2016, our operations in Brazil were classified as held for sale (see Note 11). The cumulative amounts of other reserves attributable to these operations were as follows: available-for-sale fair value reserve debit of $33m (30 June 2015: $65m debit; 31 December 2015: $176m debit), nil cash flow hedging reserve (30 June 2015: $29m debit; 31 December 2015: $34m credit) and foreign exchange reserve debit of $1.9bn (30 June 2015: $1.7bn debit; 31 December 2015: $2.6bn debit).

5 During the period HSBC USA Inc. and HSBC Finance Corporation redeemed all outstanding preferred securities at 31 December 2015 ($1,825m). Refer to Note 34 on pages 436 and 437 of the Annual Report and Accounts 2015 for further details of all preferred securities outstanding at 31 December 2015.

Notes on the Financial Statements (unaudited)

Notes on the Financial Statements

1 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

The interim condensed consolidated financial statements of HSBC have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and IAS 34 ‘Interim Financial Reporting’ as issued by the International Accounting Standards Board (‘IASB’) and as endorsed by the EU. These financial statements should be read in conjunction with the Annual Report and Accounts 2015.

At 30 June 2016, there were no unendorsed standards effective for the half-year to 30 June 2016 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC.

Standards applied during the half-year to 30 June 2016

There were no new standards applied during the half-year to 30 June 2016. During the period, HSBC applied a number of interpretations and amendments to standards which had an insignificant effect on these financial statements.

(b) Use of estimates and judgements

Management believes that HSBC’s critical accounting estimates and judgements are those which relate to impairment of loans and advances, goodwill impairment, the valuation of financial instruments, deferred tax assets, provisions for liabilities and interests in associates. There was no change in the current period to the critical accounting estimates and judgements applied in 2015, which are stated on pages 64 and 353 of the Annual Report and Accounts 2015.

(c) Composition of Group

There were no material changes in the composition of the HSBC Group in the half-year to 30 June 2016.

(d) Future accounting developments

Information on future accounting developments and their potential effect on the financial statements of HSBC are provided on pages 347 to 352 of the Annual Report and Accounts 2015. The IFRS 9 ‘Financial Instruments’ Programme’s focus continues to be on developing the impairment models and processes which are needed for the parallel run during 2017 in accordance with the project plan and finalising implementation of the more complex requirements. Until sufficient models have been developed and tested, we will not have a reliable understanding of the potential impact on the financial statements and any consequential effects on regulatory capital requirements.

(e) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

(f) Accounting policies

The accounting policies applied by HSBC for these interim condensed consolidated financial statements are consistent with those described on pages 347 to 469 of the Annual Report and Accounts 2015, as are the methods of computation.

Notes on the Financial Statements (unaudited) (continued)

2 Dividends

On 3 August 2016, the Directors declared a second interim dividend of $0.10 per ordinary share, in respect of the financial year ending 31 December 2016, a distribution of approximately $1,992m which will be payable on 28 September 2016. No liability is recognised in the financial statements in respect of this dividend.

Dividends paid to shareholders of HSBC Holdings plc

	Half-year to 30 Jun 2016			30 Jun 2015			31 Dec 2015		
	Per share $	Total $m	Settled in scrip $m	Per share $	Total $m	Settled in scrip $m	Per share $	Total $m	Settled in scrip $m
Dividends paid on ordinary shares									
In respect of previous year:									
– fourth interim dividend	0.21	4,137	408	0.20	3,845	2,011	—	—	—
In respect of current year:									
– first interim dividend	0.10	1,981	703	0.10	1,951	231	—	—	—
– second interim dividend	—	—	—	—	—	—	0.10	1,956	160
– third interim dividend	—	—	—	—	—	—	0.10	1,958	760
Total	0.31	6,118	1,111	0.30	5,796	2,242	0.20	3,914	920
Total dividends on preference shares classified as equity (paid quarterly)	31.00	45		31.00	45		31.00	45	

Total coupons on capital securities classified as equity

	Footnotes	First call date	Per security	Half-year to 30 Jun 2016 Total $m	30 Jun 2015 Total $m	31 Dec 2015 Total $m
Perpetual subordinated capital securities	1					
– $2,200m		Apr 2013	$2.032	89	89	90
– $3,800m		Dec 2015	$2.000	152	152	152
Perpetual subordinated contingent convertible securities	2					
– $2,250m		Sep 2024	$63.750	72	72	71
– $1,500m		Jan 2020	$56.250	42	28	42
– €1,500m		Sep 2022	€52.500	44	42	44
– $2,450m		Mar 2025	$63.750	78	—	78
– €1,000m		Sep 2023	€60.000	34	—	—
Total				511	383	477

1 Discretionary coupons are paid quarterly on the perpetual subordinated capital securities, in denominations of $25 per security.

2 Discretionary coupons are paid semi-annually on the perpetual subordinated contingent convertible securities, in denominations of 1,000 per security.

On 15 July 2016, HSBC paid a further coupon on the $2,200m subordinated capital securities of $0.508 per security, representing a total distribution of $45m. On 18 July 2016, HSBC paid a further coupon on the $1,500m subordinated contingent convertible securities, representing a total distribution of $42m. No liability is recognised in the financial statements in respect of these coupon payments.

In June 2016, HSBC issued $2,000m of contingent convertible securities issued at 6.875% which are classified as equity under IFRSs. Discretionary coupons are paid semi-annually on these contingent convertible securities and none were declared in 1H16.

3 Earnings per share

Profit attributable to ordinary shareholders of the parent company

	Half-year to 30 Jun 2016	30 Jun 2015	31 Dec 2015
	$m	$m	$m
Profit attributable to shareholders of the parent company	6,912	9,618	3,904
Dividend payable on preference shares classified as equity	(45)	(45)	(45)
Coupon payable on capital securities classified as equity	(511)	(383)	(477)
Profit attributable to ordinary shareholders of the parent company	6,356	9,190	3,382

Basic and diluted earnings per share

		Half-year to 30 Jun 2016			Half-year to 30 Jun 2015			Half-year to 31 Dec 2015		
		Profit	Number of shares	Amount per share	Profit	Number of shares	Amount per share	Profit	Number of shares	Amount per share
	Footnotes	$m	(millions)	$	$m	(millions)	$	$m	(millions)	$
Basic	1	6,356	19,672	0.32	9,190	19,249	0.48	3,382	19,380	0.17
Effect of dilutive potential ordinary shares			68			68			137	
Diluted	1	6,356	19,740	0.32	9,190	19,317	0.48	3,382	19,517	0.17

1 Weighted average number of ordinary shares outstanding (basic) or assuming dilution (diluted).

4 Segmental analysis

HSBC operates a matrix management structure which includes geographical regions and global businesses. HSBC considers that geographical operating segments represent the most appropriate information for users of the financial statements to best evaluate the nature and financial effects of HSBC's business activities and the economic environment in which it operates. HSBC's operating segments are Europe, Asia, Middle East and North Africa, North America, and Latin America.

	Footnotes	Europe	Asia	MENA	North America	Latin America	Intra-HSBC items	Total
		$m	$m	$m	$m	$m	$m	$m
Net operating income	1							
Half-year to 30 Jun 2016								
Net operating income		11,122	11,752	1,334	3,952	2,925	(1,615)	29,470
– external		10,602	10,795	1,340	3,778	2,955	—	29,470
– inter-segment		520	957	(6)	174	(30)	(1,615)	—
Half-year to 30 Jun 2015								
Net operating income		11,469	14,065	1,289	4,126	3,558	(1,564)	32,943
– external		10,974	13,148	1,279	3,979	3,563	—	32,943
– inter-segment		495	917	10	147	(5)	(1,564)	—
Half-year to 31 Dec 2015								
Net operating income		9,589	11,238	1,276	3,531	3,034	(1,811)	26,857
– external		8,804	10,329	1,280	3,407	3,037	—	26,857

– inter-segment	785	909	(4)	124	(3)	(1,811)	—
Profit/(loss) before tax[2]							
Half-year to:							
30 Jun 2016	1,579	7,155	985	50	(55)	—	9,714
30 Jun 2015	2,205	9,400	901	690	432	—	13,628
31 Dec 2015	(1,562)	6,363	636	(76)	(122)	—	5,239

Notes on the Financial Statements (unaudited) (continued)

	Europe	Asia	MENA	North America	Latin America	Intra-HSBC items	Total
	$m	$m	$m	$m	$m	$m	$m
Balance sheet information							
At 30 Jun 2016							
Total assets	1,251,513	946,998	58,802	438,658	93,067	(180,889)	2,608,149
Total liabilities	1,193,445	866,283	49,171	399,682	82,160	(180,889)	2,409,852
At 31 Dec 2015							
Total assets	1,129,365	889,747	59,236	393,960	86,262	(148,914)	2,409,656
Total liabilities	1,067,127	813,466	49,126	355,506	75,827	(148,914)	2,212,138

1 Net operating income before loan impairment charges and other credit risk provisions.

2 During the period the Group recognised an impairment of $800m relating to the goodwill of Global Private Banking – Europe. Further details are set out in Note 20.

5 Trading assets

	Footnotes	At 30 Jun 2016 $m	31 Dec 2015 $m
Treasury and other eligible bills		20,141	7,829
Debt securities		111,201	99,038
Equity securities		49,757	66,491
Trading securities at fair value		181,099	173,358
Loans and advances to banks	1	42,696	22,303
Loans and advances to customers	1	56,500	29,176
		280,295	224,837

1 Loans and advances to banks and customers include settlement accounts, stock borrowing, reverse repos and other amounts.

Trading securities valued at fair value[1]

	Footnotes	At 30 Jun 2016 $m	31 Dec 2015 $m
US Treasury and US Government agencies	2	21,049	14,833
UK Government		11,681	10,177
Hong Kong Government		10,757	6,495
Other government		62,105	48,567
Asset-backed securities	3	2,774	3,135
Corporate debt and other securities		22,976	23,660
Equity securities		49,757	66,491
		181,099	173,358

1

Included within these figures are debt securities issued by banks and other financial institutions of $14,873m (31 December 2015: $16,403m), of which $1,058m (31 December 2015: $1,034m) is guaranteed by various governments.

2 Includes securities that are supported by an explicit guarantee issued by the US Government.

3 Excludes asset-backed securities included under US Treasury and US Government agencies.

6 Fair values of financial instruments carried at fair value

The accounting policies, control framework and the hierarchy used to determine fair values at 30 June 2016 are consistent with those applied for the Annual Report and Accounts 2015.

Financial instruments carried at fair value and bases of valuation

	Valuation techniques			
	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	$m	$m	$m	$m
Recurring fair value measurements				
At 30 Jun 2016				
Assets				
Trading assets	140,031	133,762	6,502	280,295
Financial assets designated at fair value	18,915	4,426	560	23,901
Derivatives	2,229	364,564	3,149	369,942
Financial investments: available for sale	274,115	118,184	3,945	396,244
Liabilities				
Trading liabilities	49,850	134,201	4,647	188,698
Financial liabilities designated at fair value	4,472	74,375	35	78,882
Derivatives	2,992	363,260	2,162	368,414
At 31 Dec 2015				
Assets				
Trading assets	133,095	84,886	6,856	224,837
Financial assets designated at fair value	18,947	4,431	474	23,852
Derivatives	1,922	284,292	2,262	288,476
Financial investments: available for sale	262,929	117,197	4,727	384,853
Liabilities				
Trading liabilities	41,462	95,867	4,285	141,614
Financial liabilities designated at fair value	5,260	61,145	3	66,408
Derivatives	2,243	277,618	1,210	281,071

The increase in Level 2 trading assets and liabilities reflects an increase in settlement balances and cash collateral. The increase in Level 2 derivative assets and liabilities is driven by significant yield curve movements.

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Available for sale	Held for trading	Designated at fair value through profit or loss	Derivatives	Held for trading	Designated at fair value through profit or loss	Derivatives
	$m	$m	$m	$m	$m	$m	$m
At 30 Jun 2016							
Transfers from Level 1 to Level 2	162	1,614	122	—	2,699	—	—
Transfers from Level 2 to Level	1,314	—	—	—	341	—	—

1

At 31 Dec 2015							
Transfers from Level 1 to Level 2	—	67	—	56	1,563	857	100
Transfers from Level 2 to Level 1	—	487	—	2	515	2	—

Fair value adjustments

Fair value adjustments are adopted when HSBC considers that there are additional factors that would be considered by a market participant that are not incorporated within the valuation model. HSBC classifies fair value adjustments as either 'risk related' or 'model-related'. The majority of these adjustments relate to GB&M. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

Notes on the Financial Statements (unaudited) (continued)

Global Banking and Markets fair value adjustments

	At 30 Jun 2016	31 Dec 2015
	$m	$m
Type of adjustment		
Risk-related	1,456	1,402
– bid-offer	495	477
– uncertainty	64	95
– credit valuation adjustment	901	853
– debit valuation adjustment	(600)	(465)
– funding fair value adjustment	593	442
– other	3	—
Model-related	(196)	97
– model limitation	(196)	92
– other	—	5
Inception profit (Day 1 P&L reserves)[1]	84	97
	1,344	1,596

1 See Note 9 on the Financial Statements on page 128.

Fair value adjustments declined by $252m during 1H16. The most significant movement was a decline of $288m in respect of a model limitation adjustment relating to derivative discounting assumptions. This was driven by a tightening of the major currency spreads during the period.

A description of HSBC's risk-related and model-related adjustments is provided on pages 381 and 382 of the Annual Report and Accounts 2015.

Fair value valuation bases

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

	Assets					Liabilities			
	Available for sale	Held for trading	At fair value[1]	Deriv-atives	Total	Held for trading	At fair value[1]	Deriv-atives	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Private equity including strategic investments	2,933	79	544	—	3,556	49	—	—	49
Asset-backed securities	782	719	—	—	1,501	—	—	—	—
Loans held for securitisation	—	30	—	—	30	—	—	—	—
Structured notes	—	4	—	—	4	4,596	—	—	4,596
Derivatives with monolines	—	—	—	223	223	—	—	—	—
Other derivatives	—	—	—	2,926	2,926	—	—	2,162	2,162
Other portfolios	230	5,670	16	—	5,916	2	35	—	37
At 30 Jun 2016	3,945	6,502	560	3,149	14,156	4,647	35	2,162	6,844

Private equity including strategic investments	3,443	55	453	—	3,951	35	—	—	35
Asset-backed securities	1,053	531	—	—	1,584	—	—	—	—
Loans held for securitisation	—	30	—	—	30	—	—	—	—
Structured notes	—	4	—	—	4	4,250	—	—	4,250
Derivatives with monolines	—	—	—	196	196	—	—	—	—
Other derivatives	—	—	—	2,066	2,066	—	—	1,210	1,210
Other portfolios	231	6,236	21	—	6,488	—	3	—	3
At 31 Dec 2015	4,727	6,856	474	2,262	14,319	4,285	3	1,210	5,498

1 Designated at fair value through profit or loss.

The basis for determining the fair value of the financial instruments in the table above is explained on page 382 of the Annual Report and Accounts 2015.

Movement in Level 3 financial instruments

		Assets				Liabilities		
		Available for sale	Held for trading	Designated at fair value through profit or loss	Derivatives	Held for trading	Designated at fair value through profit or loss	Derivatives
	Footnotes	$m	$m	$m	$m	$m	$m	$m
At 1 Jan 2016		4,727	6,856	474	2,262	4,285	3	1,210
Total gains/(losses) recognised in profit or loss		37	136	23	1,188	294	—	1,071
– trading income/(expense) excluding net interest income		—	136	—	1,188	294	—	1,071
– net income/(expense) from other financial instruments designated at fair value		—	—	23	—	—	—	—
– gains less losses from financial investments		(28)	—	—	—	—	—	—
– loan impairment charges and other credit risk provisions		65	—	—	—	—	—	—
Total gains/(losses) recognised in other comprehensive income	1	132	(309)	1	(200)	(86)	—	(151)
– available-for-sale investments: fair value gains		238	—	—	—	—	—	—
– cash flow hedges: fair value gains/(losses)		—	—	—	—	—	—	—
– exchange differences		(106)	(309)	1	(200)	(86)	—	(151)
Purchases		160	187	84	—	—	—	—
New issuances		—	—	—	—	1,318	—	—
Sales		(810)	(1,176)	(3)	—	(16)	(1)	—
Settlements		(88)	(24)	(18)	—	(660)	—	(186)
Transfers out		(572)	(36)	(1)	(105)	(504)	—	(107)
Transfers in		359	868	—	4	16	33	325
At 30 Jun 2016		3,945	6,502	560	3,149	4,647	35	2,162
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2016		65	27	20	1,090	212	—	65

– trading income/(expense) excluding net interest income	—	27	—	1,090	212	—	65
– net income/(expense) from other financial instruments designated at fair value	—	—	20	—	—	—	—
– loan impairment recoveries and other credit risk provisions	65	—	—	—	—	—	—

Notes on the Financial Statements (unaudited) (continued)

		Assets				Liabilities		
		Available for sale	Held for trading	Designated at fair value through profit or loss	Derivatives	Held for trading	Designated at fair value through profit or loss	Derivatives
	Footnotes	$m	$m	$m	$m	$m	$m	$m
At 1 Jan 2015		4,988	6,468	726	2,924	6,139	—	1,907
Total gains/(losses) recognised in profit or loss		(17)	(14)	(19)	344	(223)	(1)	(467)
– trading income/(expense) excluding net interest income		—	(14)	—	344	(223)	—	(467)
– net income/(expense) from other financial instruments designated at fair value		—	—	(19)	—	—	(1)	—
– gains less losses from financial investments		(29)	—	—	—	—	—	—
– loan impairment charges and other credit risk provisions		12	—	—	—	—	—	—
Total gains/(losses) recognised in other comprehensive income	1	72	(6)	(9)	5	(20)	(1)	1
– available-for-sale investments: fair value gains		70	—	—	—	—	—	—
– cash flow hedges: fair value gains		—	—	—	—	—	—	—
– exchange differences		2	(6)	(9)	5	(20)	(1)	1
Purchases		342	435	165	—	—	9	—
New issuances		—	—	—	—	863	—	—
Sales		(420)	(1,134)	(46)	—	(10)	(2)	—
Settlements		(15)	(90)	(72)	43	(681)	—	41
Transfers out		(1,257)	(31)	(272)	(312)	(889)	—	(52)
Transfers in		314	112	—	64	126	—	13
At 30 Jun 2015		4,007	5,740	473	3,068	5,305	5	1,443

HSBC HOLDINGS PLC
123

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Available for sale	Held for trading	Designated at fair value through profit or loss	Derivatives	Held for trading	Designated at fair value through profit or loss	Derivatives
	$m	$m	$m	$m	$m	$m	$m
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2015	13	(6)	17	444	(24)	(1)	(459)
– trading income/(expense) excluding net interest income	—	(6)	—	444	(24)	—	(459)
– net income/(expense) from other financial instruments designated at fair value	—	—	17	—	—	(1)	—
– loan impairment recoveries and other credit risk provisions	13	—	—	—	—	—	—
At 1 Jul 2015	4,007	5,740	473	3,068	5,305	5	1,443
Total gains/(losses) recognised in profit or loss	(17)	123	49	(249)	(350)	—	258
– trading income/(expense) excluding net interest income	—	123	—	(249)	(350)	—	258
– net income/(expense) from other financial instruments designated at fair value	—	—	—	—	—	—	—
– gains less losses from financial investments	(240)	—	49	—	—	—	—
– loan impairment charges and other credit risk provisions	223	—	—	—	—	—	—
Total gains recognised in other comprehensive income[1]	154	(186)	(2)	(131)	(98)	—	(65)
– available-for-sale investments: fair value gains	323	—	—	—	—	—	—
– cash flow hedges: fair value gains	—	—	—	(4)	—	—	—
– exchange differences	(169)	(186)	(2)	(127)	(98)	—	(65)
Purchases	252	1,310	85	—	2	—	—
New issuances	—	—	—	—	608	—	—
Sales	(337)	(72)	(4)	—	(56)	(2)	—
Settlements	(17)	(56)	(63)	(81)	(579)	—	(282)
Transfers out	(214)	(175)	(64)	(703)	(854)	—	(231)
Transfers in	899	172	—	358	307	—	87

At 31 Dec 2015	4,727	6,856	474	2,262	4,285	3	1,210
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2015	222	(3)	(5)	(355)	408	—	726
– trading income/(expense) excluding net interest income	—	(3)	—	(355)	408	—	726
– net income/(expense) from other financial instruments designated at fair value	—	—	(5)	—	—	—	—
– loan impairment recoveries and other credit risk provisions	222	—	—	—	—	—	—

1 Included in 'Available-for-sale investments: fair value gains/(losses)' and 'Exchange differences' in the consolidated statement of comprehensive income.

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period. Movements in available-for-sale assets are mainly driven by sales of private equity investments and the transfer out of Level 3 of legacy credit assets following greater price certainty. Sales in trading assets reflect sell-down of syndicated loans.

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

The following table shows the sensitivity of Level 3 fair values to reasonably possible alternative assumptions:

Notes on the Financial Statements (unaudited) (continued)

Sensitivity of fair values to reasonably possible alternative assumptions

		Reflected in profit or loss		Reflected in other comprehensive income	
	Footnotes	Favourable changes $m	Unfavourable changes $m	Favourable changes $m	Unfavourable changes $m
Derivatives, trading assets and trading liabilities	1	229	(257)	—	—
Financial assets and liabilities designated at fair value		28	(28)	—	—
Financial investments: available for sale		43	(33)	193	(207)
At 30 Jun 2016		300	(318)	193	(207)
Derivatives, trading assets and trading liabilities	1	255	(274)	—	—
Financial assets and liabilities designated at fair value		41	(42)	—	—
Financial investments: available for sale		33	(30)	222	(217)
At 30 Jun 2015		329	(346)	222	(217)
Derivatives, trading assets and trading liabilities	1	335	(215)	—	—
Financial assets and liabilities designated at fair value		24	(24)	—	—
Financial investments: available for sale		35	(30)	230	(243)
At 31 Dec 2015		394	(269)	230	(243)

1 Derivatives, 'trading assets and trading liabilities' are presented as one category to reflect the manner in which these financial instruments are risk managed.

The reduction in the effect of both favourable and unfavourable changes during the period reflects funding spread widening and increased pricing certainty, in particular in private equity.

Sensitivity of fair values to reasonably possible alternative assumptions by Level 3 instrument type

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes $m	Unfavourable changes $m	Favourable changes $m	Unfavourable changes $m
Private equity including strategic investments	63	(63)	121	(140)
Asset-backed securities	26	(13)	54	(49)
Loans held for securitisation	1	(1)	—	—
Structured notes	12	(9)	—	—
Derivatives with monolines	7	(7)	—	—
Other derivatives	132	(164)	—	—
Other portfolios	59	(61)	18	(18)

At 30 Jun 2016	300	(318	) 193	(207	)
Private equity including strategic investments	79	(79	) 171	(171	)
Asset-backed securities	31	(9	) 29	(24	)
Loans held for securitisation	1	(1	) —	—	
Structured notes	19	(14	) —	—	
Derivatives with monolines	9	(9	) —	—	
Other derivatives	117	(198	) —	—	
Other portfolios	73	(36	) 22	(22	)
At 30 Jun 2015	329	(346	) 222	(217	)
Private equity including strategic investments	54	(53	) 152	(171	)
Asset-backed securities	18	(12	) 57	(51	)
Loans held for securitisation	1	(1	) —	—	
Structured notes	15	(11	) —	—	
Derivatives with monolines	11	(11	) —	—	
Other derivatives	179	(87	) —	—	
Other portfolios	116	(94	) 21	(21	)
At 31 Dec 2015	394	(269	) 230	(243	)

Favourable and unfavourable changes are determined on the basis of sensitivity analysis. The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, the availability and reliability of observable proxies and historical data. When the available data are not amenable to statistical analysis, the quantification of uncertainty is judgemental, but remains guided by the 95% confidence interval.

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or the most unfavourable change from varying the assumptions individually.

Key unobservable inputs to Level 3 financial instruments and inter-relationships
The table below lists key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 30 June 2016. The core range of inputs is the estimated range within which 90% of the inputs fall.
There has been no change to the key unobservable inputs to Level 3 financial instruments and inter-relationships therein which are detailed on page 389 of the Annual Report and Accounts 2015.
Quantitative information about significant unobservable inputs in Level 3 valuations

		Fair value							
		Assets	Liabilities		Key unobservable	Full range of inputs		Core range of inputs	
	Footnotes	$m	$m	Valuation technique	inputs	Lower	Higher	Lower	Higher
Private equity including strategic investments		3,556	49	See notes[3]	See notes[3]	n/a	n/a	n/a	n/a
Asset-backed securities		1,501	—						
– CLO/CDO	1	371	—	Market proxy	Prepayment rate	2 %	7 %	2 %	7 %
			—	Market proxy	Bid quotes	0	99	19	89
– other ABSs		1,130	—	Market proxy	Bid quotes	0	99	50	88
Loans held for securitisation		30	—						
Structured notes		4	4,596						
– equity-linked notes		—	4,042	Model – option model	Equity volatility	12 %	83 %	18 %	35 %
				Model – option model	Equity correlation	35 %	94 %	46 %	83 %
– fund-linked notes		—	14	Model – option model	Fund volatility	7 %	11 %	7 %	11 %
– FX-linked notes		—	149	Model – option model	FX volatility	4 %	30 %	7 %	19 %
– other		4	391						
Derivatives with monolines		223	—	Model – discounted cash flow	Credit spread	3 %	3 %	3 %	3 %
Other derivatives		2,926	2,162						
Interest rate derivatives:									
– securitisation swaps		399	981	Model – discounted cash flow	Prepayment rate	0.5 %	90 %	21 %	74 %
– long-dated swaptions		1,886	120	Model – option model	IR volatility	5 %	209 %	16 %	36%

– other		208	60											
FX derivatives:														
– FX options		212	188	Model – option model	FX volatility	0.5	%	30	%	7	%	14	%
– other		5	2										
Equity derivatives:													
– long-dated single stock options		134	178	Model – option model	Equity volatility	10	%	97	%	18	%	36	%
– other		47	306										
Credit derivatives:													
– other		35	327										
Other portfolios		5,916	37										
– structured certificates		4,440	—	Model – discounted cash flow	Credit volatility	2	%	4	%	2	%	4	%
– EM corporate debt		472	—	Market proxy	Bid quotes	99		127		110		126	
Other	2	1,004	37										
At 30 Jun 2016		14,156	6,844										

1 Collateralised loan obligation/collateralised debt obligation.
2 'Other' includes a range of smaller asset holdings.
3 See notes on page 389 of the Annual Report and Accounts 2015.

HSBC HOLDINGS PLC
126

Notes on the Financial Statements (unaudited) (continued)

Quantitative information about significant unobservable inputs in Level 3 valuations (continued)

		Fair value							
		Assets	Liabilities		Key unobservable	Full range of inputs		Core range of inputs	
	Footnotes	$m	$m	Valuation technique	inputs	Lower	Higher	Lower	Higher
Private equity including strategic investments		3,951	35	See notes[3]	See notes[3]	n/a	n/a	n/a	n/a
Asset-backed securities		1,584	—						
– CLO/CDO	1	511	—	Market proxy	Prepayment rate	1 %	6 %	1 %	6 %
			—	Market proxy	Bid quotes	3	147	54	117
– other ABSs		1,073	—	Market proxy	Bid quotes				
Loans held for securitisation		30	—						
Structured notes		4	4,250						
– equity-linked notes		—	3,719	Model – option model	Equity volatility	12 %	72 %	19 %	43 %
				Model – option model	Equity correlation	35 %	93 %	43 %	79 %
– fund-linked notes		—	13	Model – option model	Fund volatility	6 %	8 %	6 %	8 %
– FX-linked notes		—	166	Model – option model	FX volatility	5 %	35 %	5 %	20 %
– other		4	352						
Derivatives with monolines		196	—	Model – discounted cash flow	Credit spread	4 %	4 %	4 %	4 %
Other derivatives		2,066	1,210						
Interest rate derivatives:									
– securitisation swaps		250	455	Model – discounted cash flow	Prepayment rate	0 %	90 %	14 %	71 %
– long-dated swaptions		1,237	119	Model – option model	IR volatility	3 %	66 %	20 %	41 %
– other		176	65						

FX derivatives:														
– FX options		180	186	Model – option model	FX volatility	0.5	%	35	%	5	%	14	%
– other		10	5										
Equity derivatives:													
– long-dated single stock options		135	191	Model – option model	Equity volatility	8	%	104	%	18	%	44	%
– other		39	170										
Credit derivatives:													
– other		39	19										
Other portfolios		6,488	3										
– structured certificates		4,434	—	Model – discounted cash flow	Credit volatility	2	%	4	%	2	%	4	%
– EM corporate debt		210	—	Market proxy	Bid quotes	70		124		100		123	
Other	2	1,844	3										
At 31 Dec 2015		14,319	5,498										

1 Collateralised loan obligation/collateralised debt obligation.
2 'Other' includes a range of smaller asset holdings.
3 See notes on page 389 of the Annual Report and Accounts 2015.

7 Fair values of financial instruments not carried at fair value

The basis for measuring the fair values of loans and advances to banks and customers, financial investments, deposits by banks, customer accounts, debt securities in issue, subordinated liabilities and non-trading repurchase and reverse repurchase agreements is explained on pages 391 and 392 of the Annual Report and Accounts 2015.

Fair values of financial instruments which are not carried at fair value on the balance sheet

	At 30 Jun 2016		At 31 Dec 2015	
	Carrying amount	Fair value	Carrying Amount	Fair value
	$m	$m	$m	$m
Assets				
Loans and advances to banks	92,199	92,131	90,401	90,411
Loans and advances to customers	887,556	886,637	924,454	922,469
Reverse repurchase agreements – non-trading	187,826	187,869	146,255	146,266
Financial investments: debt securities	45,155	47,744	44,102	45,258
Liabilities				
Deposits by banks	69,900	69,907	54,371	54,371
Customer accounts	1,290,958	1,292,378	1,289,586	1,289,789
Repurchase agreements – non-trading	98,342	98,344	80,400	80,400
Debt securities in issue	87,673	87,892	88,949	89,023
Subordinated liabilities	21,669	23,455	22,702	24,993

Other financial instruments not carried at fair value are typically short-term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value.

8 Financial assets designated at fair value

	At	
	30 Jun 2016	31 Dec 2015
	$m	$m
Treasury and other eligible bills	278	396
Debt securities	4,390	4,341
Equity securities	19,120	18,995
Securities designated at fair value	23,788	23,732
Loans and advances to banks and customers	113	120
	23,901	23,852

Securities designated at fair value[1]

	At	
	30 Jun 2016	31 Dec 2015
	$m	$m
US Treasury and US Government agencies	7	145
UK Government	95	103
Hong Kong Government	28	33
Other government	1,084	1,020
Asset-backed securities	36	25
Corporate debt and other securities	3,418	3,411
Equity securities	19,120	18,995

23,788	23,732

1 Included within these figures are debt securities issued by banks and other financial institutions of $1,680m (31 December 2015: $1,536m), of which $29m (31 December 2015: $35m) are guaranteed by various governments.

Notes on the Financial Statements (unaudited) (continued)

9 Derivatives

Fair values of derivatives by product contract type held by HSBC

	Assets			Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total
	$m	$m	$m	$m	$m	$m
Foreign exchange	116,357	614	116,971	118,450	2,359	120,809
Interest rate	378,397	2,332	380,729	366,415	6,885	373,300
Equities	8,569	—	8,569	9,726	—	9,726
Credit	5,359	—	5,359	6,049	—	6,049
Commodity and other	2,052	—	2,052	2,268	—	2,268
Gross total fair values	510,734	2,946	513,680	502,908	9,244	512,152
Offset			(143,738)			(143,738)
At 30 Jun 2016			369,942			368,414
Foreign exchange	95,201	1,140	96,341	94,843	755	95,598
Interest rate	277,496	1,658	279,154	267,609	3,758	271,367
Equities	8,732	—	8,732	10,383	—	10,383
Credit	6,961	—	6,961	6,884	—	6,884
Commodity and other	3,148	—	3,148	2,699	—	2,699
Gross total fair values	391,538	2,798	394,336	382,418	4,513	386,931
Offset			(105,860)			(105,860)
At 31 Dec 2015			288,476			281,071

Derivative assets and liabilities increased during 1H16, primarily driven by an increase in the fair value of interest rate derivatives as yield curves in major currencies declined. This resulted in the increase in gross fair values and corresponding increase in the offset amount.

Trading derivatives

The notional contract amounts of derivatives held for trading purposes indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Notional contract amounts of derivatives held for trading purposes by product type

	At	
	30 Jun 2016	31 Dec 2015
	$m	$m
Foreign exchange	6,040,629	5,658,030
Interest rate	15,573,352	14,462,113
Equities	487,893	501,834
Credit	488,866	463,344
Commodity and other	67,555	51,683

	22,658,295	21,137,004

Credit derivatives

HSBC manages the credit risk arising on buying and selling credit derivative protection by including the related credit exposures within its overall credit limit structure for the relevant counterparty. The trading of credit derivatives is restricted to a small number of offices within the major centres which have the control infrastructure and market skills to manage effectively the credit risk inherent in the products.

The notional contract amount of credit derivatives of $489bn (31 December 2015: $463bn) consisted of protection bought of $251bn (31 December 2015: $237bn) and protection sold of $238bn (31 December 2015: $226bn).

Derivatives valued using models with unobservable inputs

The difference between the fair value at initial recognition (the transaction price) and the value that would have been derived had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is as follows:

Unamortised balance of derivatives valued using models with significant unobservable inputs

		Half-year to		
		30 Jun 2016	30 Jun 2015	31 Dec 2015
	Footnotes	$m	$m	$m
Unamortised balance at beginning of period		97	114	117
Deferral on new transactions		67	118	78
Recognised in the income statement during the period:		(74)	(115)	(92)
– amortisation		(38)	(69)	(52)
– subsequent to unobservable inputs becoming observable		(2)	(1)	(1)
– maturity or termination, or offsetting derivative		(34)	(45)	(39)
Exchange differences		(6)	—	(6)
Unamortised balance at end of period	1	84	117	97

1 This amount is yet to be recognised in the consolidated income statement.

Hedge accounting derivatives

The notional contract amounts of derivatives held for hedge accounting purposes indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Notional contract amounts of derivatives held for hedging purposes by product type

	At 30 Jun 2016		At 31 Dec 2015	
	Cash flow hedges $m	Fair value hedges $m	Cash flow hedges $m	Fair value hedges $m
Foreign exchange	29,922	460	32,128	196
Interest rate	106,954	135,377	107,796	105,127
	136,876	135,837	139,924	105,323

10 Financial investments

Carrying amounts and fair values of financial investments

	At 30 Jun 2016		At 31 Dec 2015	
	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m
Treasury and other eligible bills	94,690	94,690	104,551	104,551
– available for sale	94,690	94,690	104,551	104,551
Debt securities	341,496	344,085	318,569	319,725
– available for sale	296,341	296,341	274,467	274,467
– held to maturity	45,155	47,744	44,102	45,258
Equity securities	5,213	5,213	5,835	5,835

– available for sale	5,213	5,213	5,835	5,835
	441,399	443,988	428,955	430,111

Notes on the Financial Statements (unaudited) (continued)

Financial investments at amortised cost and fair value

	Footnotes	Amortised cost[1] $m	Fair value[2] $m
US Treasury		54,177	56,194
US Government agencies	3	18,800	19,088
US Government sponsored entities	3	13,196	13,798
UK Government		26,174	27,199
Hong Kong Government		57,050	57,070
Other government		146,812	149,562
Asset-backed securities	4	12,095	11,243
Corporate debt and other securities		100,748	104,621
Equities		3,512	5,213
At 30 Jun 2016		432,564	443,988
US Treasury		61,585	61,779
US Government agencies	3	22,910	22,843
US Government sponsored entities	3	10,365	10,627
UK Government		27,250	27,316
Hong Kong Government		53,676	53,674
Other government		141,329	143,370
Asset-backed securities	4	14,239	13,375
Corporate debt and other securities		89,860	91,292
Equities		4,057	5,835
At 31 Dec 2015		425,271	430,111

1 Represents the amortised cost or cost basis of the financial investment.

2 Included within the 'Fair value' figures are debt securities issued by banks and other financial institutions of $68bn (31 December 2015: $61bn), of which $20bn (31 December 2015: $18bn) are guaranteed by various governments.

3 Includes securities that are supported by an explicit guarantee issued by the US Government.

4 Excludes asset-backed securities included under US Government agencies and sponsored entities.

Maturities of investments in debt securities at their carrying amount

	1 year or less $m	5 years or less but over 1 year $m	10 years or less but over 5 years $m	Over 10 years $m	Total $m
Available for sale	66,345	144,929	45,498	39,569	296,341
Held to maturity	1,726	10,429	9,381	23,619	45,155
At 30 Jun 2016	68,071	155,358	54,879	63,188	341,496
Available for sale	61,664	131,023	42,140	39,640	274,467
Held to maturity	2,428	10,242	8,881	22,551	44,102

At 31 Dec 2015	64,092	141,265	51,021	62,191	318,569

11 Assets held for sale and liabilities of disposal groups held for sale

	At	
	30 Jun 2016	31 Dec 2015
	$m	$m
Disposal groups	48,899	41,715
Non-current assets held for sale	1,406	2,185
Total assets held for sale	50,305	43,900
Liabilities of disposal groups held for sale	43,705	36,840

Disposal groups

Brazil

In 1H15, we announced the plan to sell our operations in Brazil. The resulting disposal group includes the assets and liabilities expected to be sold plus allocated goodwill of $1.3bn as set out in the table below. It is measured at its carrying amount at 30 June 2016 which is lower than its fair value less cost to sell.

The disposal group represents a foreign operation. Upon completion, the cumulative amount of associated exchange differences previously recognised in other comprehensive income will be reclassified to the income statement. At 30 June 2016, there was a cumulative loss of $1.9bn in the Group's foreign exchange reserve attributable to the Brazilian operations.

Subsequent to 30 June 2016, we completed the sale of our operations in Brazil to Banco Bradesco S.A. (1 July 2016) for cash consideration of $4.9bn. This resulted in a loss on disposal of $1.7bn which includes the reclassification of cumulative foreign exchange differences.

The major classes of assets and associated liabilities of disposal groups held for sale are as follows:

		At 30 Jun 2016		
		Brazil	Other	Total
	Footnotes	$m	$m	$m
Assets of disposal groups held for sale				
Trading assets		157	—	157
Fair value of financial assets designated at fair value		4,056	—	4,056
Loans and advances to banks		5,332	—	5,332
Loans and advances to customers		19,203	582	19,785
Reverse repurchase agreements		3,209	—	3,209
Financial investments		6,726	—	6,726
Goodwill and intangible assets		1,819	54	1,873
Deferred tax asset	1	1,687	—	1,687
Prepayments, accrued income and other assets		6,073	1	6,074
Total assets		48,262	637	48,899
Liabilities of disposal groups held for sale				
Deposits by banks		1,863	—	1,863
Customer accounts		19,357	1,174	20,531
Debt securities in issue		8,908	—	8,908
Liabilities under insurance contracts		4,347	—	4,347
Accruals, deferred income and other liabilities		8,054	2	8,056
Total liabilities		42,529	1,176	43,705
Expected date of completion		1 July 2016	Various	
Operating segment		Latin America	Various	
Fair value of selected financial instruments which are not carried at fair value on the balance sheet				
Loans and advances to banks and customers		23,874	585	24,459
Customer accounts		19,056	1,173	20,229

1 The recognition of deferred tax assets relies on an assessment of the probability and sufficiency of future taxable profits and future reversals of existing taxable temporary differences. In recognising the deferred tax asset management has critically assessed all available information, including sufficiency of future taxable profits using

internal and external benchmarks, and historical performance.

12 Assets charged as security for liabilities and collateral accepted as security for assets

Information on financial assets pledged as security for liabilities and collateral accepted as security for assets is disclosed on pages 401 and 402 of the Annual Report and Accounts 2015. There was no material change in the relative amounts of assets charged as security for liabilities and collateral accepted as security for assets at 30 June 2016.

13 Interests in associates and joint ventures

At 30 June 2016, the carrying amount of HSBC's interests in associates and joint ventures was $19.6bn (31 December 2015: $19.1bn).

Notes on the Financial Statements (unaudited) (continued)

Principal associates of HSBC

	At 30 Jun 2016		At 31 Dec 2015	
	Carrying amount	Fair value[1]	Carrying amount	Fair value[1]
	$m	$m	$m	$m
Bank of Communications Co., Limited	15,408	8,872	15,344	9,940
The Saudi British Bank	3,177	3,250	3,021	3,957
	18,585	12,122	18,365	13,897

1 Principal associates are listed on recognised stock exchanges. The fair values are based on the quoted market prices of the shares held (Level 1 in the fair value hierarchy).

Bank of Communications Co., Limited

Impairment testing

At 30 June 2016, the fair value of HSBC's investment in Bank of Communications Co., Limited ('BoCom') had been below the carrying amount for approximately 50 months, apart from a short period in 2013 and briefly during 1H15. As a result, we performed an impairment test on the carrying amount of the investment in BoCom. The test confirmed that there was no impairment at 30 June 2016.

	At 30 Jun 2016			At 31 Dec 2015		
	VIU	Carrying value	Fair value	VIU	Carrying value	Fair value
	$bn	$bn	$bn	$bn	$bn	$bn
Bank of Communications Co., Limited	16.2	15.4	8.9	17.0	15.3	9.9

Basis of recoverable amount

The impairment test was performed by comparing the recoverable amount of BoCom, determined by a value-in-use ('VIU') calculation, with its carrying amount. The VIU calculation uses discounted cash flow projections based on management's estimates of earnings. Cash flows beyond the short to medium term are then extrapolated in perpetuity using a long-term growth rate. An imputed capital maintenance charge ('CMC') is calculated to reflect the expected regulatory capital requirements, and is deducted from forecast cash flows. The principal inputs to the CMC calculation include estimates of asset growth, the ratio of risk-weighted assets to total assets, and the expected regulatory capital requirements. Management judgement is required in estimating the future cash flows of BoCom.

Key assumptions in VIU calculation

Long-term growth rate: the growth rate used was 5% (31 December 2015: 5%) for periods after 2019 and does not exceed forecast GDP growth in mainland China.

Long-term asset growth rate: the growth rate used was 4% (31 December 2015: 4%) for periods after 2019 and this is the rate of growth required for an assumed 5% long-term growth rate in profit.

Discount rate: the discount rate of 13% (31 December 2015: 13%) is derived from a range of values obtained by applying a capital asset pricing model ('CAPM') calculation for BoCom, using market data. Management supplements this by comparing the rates derived from the CAPM with discount rates available from external sources, and HSBC's discount rate for evaluating investments in mainland China. The discount rate used was within the range of 10.1% to 15.0% (31 December 2015: 10.1% to 14.2%) indicated by the CAPM and external sources.

Loan impairment charge as a percentage of customer advances: the ratio used ranges from 0.76% to 0.83% (31 December 2015: 0.71% to 0.78%) in the short to medium term and is based on the forecasts disclosed by external analysts. For periods after 2019, the ratio used was 0.70% (31 December 2015: 0.70%), slightly higher than the historical average.

Risk-weighted assets as a percentage of total assets: the ratio used was 67% for all forecast periods (31 December 2015: 67%). This is consistent with the forecasts disclosed by external analysts.
Cost-income ratio: the ratio used was 41% (31 December 2015: 41%) in the short to medium term. The ratio was consistent with the short- to medium-term range forecasts of 40.2% to 42.4% (31 December 2015: 40.3% to 40.7%) disclosed by external analysts.

The following changes to each key assumption on its own used in the VIU calculation would be necessary to reduce headroom to nil:

Key assumption	Changes to key assumption to reduce headroom to nil
• Long-term growth rate	Decrease by 30 basis points
• Long-term asset growth rate	Increase by 31 basis points
• Discount rate	Increase by 38 basis points
• Loan impairment charge as a percentage of customer advances	Increase by 7 basis points
• Risk-weighted assets as a percentage of total assets	Increase by 225 basis points
• Cost-income ratio	Increase by 132 basis points

14 Trading liabilities

		At 30 Jun 2016	31 Dec 2015
	Footnotes	$m	$m
Deposits by banks	1	38,521	27,054
Customer accounts	1, 2	62,805	40,208
Other debt securities in issue	3	31,860	30,525
Other liabilities – net short positions in securities		55,512	43,827
		188,698	141,614

1 ‘Deposits by banks’ and ‘Customer accounts’ include repos, settlement accounts, stock lending and other amounts.
2 Structured deposits placed at HSBC Bank USA and HSBC Trust Company (Delaware) National Association are insured by the Federal Deposit Insurance Corporation, a US Government agency, up to $250,000 per depositor.
3 ‘Other debt securities in issue’ comprises structured notes issued by HSBC for which market risks are actively managed as part of trading portfolios.

At 30 June 2016, the cumulative amount of change in fair value attributable to changes in credit risk was a gain of $346m (31 December 2015: gain of $122m).

15 Maturity analysis of assets and liabilities
HSBC
Maturity analysis of assets and liabilities

	Footnotes	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
		$m	$m	$m	$m	$m	$m	$m	$m	$m
Financial assets										
Cash and balances at central banks		128,272	—	—	—	—	—	—	—	128,272
Items in the course of collection from other banks		6,584	—	—	—	—	—	—	—	6,584
Hong Kong Government certificates of indebtedness		29,011	—	—	—	—	—	—	—	29,011
Trading assets		277,876	261	906	353	1	898	—	—	280,295
Financial assets designated at fair value		245	88	520	149	170	967	2,442	19,320	23,901
Derivatives		367,166	19	50	94	84	365	1,089	1,075	369,942
Loans and advances to banks		61,768	11,054	5,552	2,738	1,895	5,513	2,333	1,346	92,199
Loans and advances to customers		171,009	64,540	49,377	30,743	33,016	78,342	199,297	261,232	887,556
Reverse repurchase agreements – non-trading		140,887	26,874	10,808	2,617	4,626	1,515	499	—	187,826
Financial investments		35,975	51,952	33,529	22,986	18,247	52,017	102,502	124,191	441,399
Assets held for sale	1	38,398	1	10	7	10	87	8	—	38,521
Accrued income and other financial assets		12,777	7,488	1,859	587	496	348	441	1,724	25,720
		1,269,968	162,277	102,611	60,274	58,545	140,052	308,611	408,888	2,511,226

Financial assets at 30 Jun 2016										
Non-financial assets		—	—	—	—	—	—	—	96,923	96,923
Total assets at 30 Jun 2016		1,269,968	162,277	102,611	60,274	58,545	140,052	308,611	505,811	2,608,149
Financial liabilities										
Hong Kong currency notes in circulation		29,011	—	—	—	—	—	—	—	29,011
Deposits by banks		59,052	1,694	806	1,799	1,612	315	3,701	921	69,900
Customer accounts		1,186,803	50,556	24,047	10,683	9,009	5,587	3,689	584	1,290,958
Repurchase agreements – non-trading		89,718	3,938	3,142	519	25	—	750	250	98,342
Items in the course of transmission to other banks		7,461	—	—	—	—	—	—	—	7,461
Trading liabilities		157,132	1,341	3,092	1,327	1,056	5,784	6,583	12,383	188,698
Financial liabilities designated at fair value		119	483	1,822	1,722	1,598	3,664	24,687	44,787	78,882
Derivatives		359,525	284	312	297	172	1,245	1,931	4,648	368,414
Debt securities in issue		16,161	12,604	9,389	6,624	5,796	11,609	22,247	3,243	87,673
Liabilities of disposal groups held for sale	1	37,987	27	—	—	—	—	—	—	38,014
Accruals and other financial liabilities		16,256	6,881	2,064	1,380	696	818	1,542	609	30,246
Subordinated liabilities		11	—	11	77	159	2,394	4,889	14,128	21,669
Financial liabilities at 30 Jun 2016		1,959,236	77,808	44,685	24,428	20,123	31,416	70,019	81,553	2,309,268
Non-financial liabilities		—	—	—	—	—	—	—	100,584	100,584
		1,959,236	77,808	44,685	24,428	20,123	31,416	70,019	182,137	2,409,852

Total liabilities
at 30 Jun 2016

HSBC HOLDINGS PLC
135

Maturity analysis of assets and liabilities (continued)

	Footnotes	Due not more than 1 month $m	Due over 1 month but not more than 3 months $m	Due over 3 months but not more than 6 months $m	Due over 6 months but not more than 9 months $m	Due over 9 months but not more than 1 year $m	Due over 1 year but not more than 2 years $m	Due over 2 years but not more than 5 years $m	Due over 5 years $m	Total $m
Financial assets										
Cash and balances at central banks		98,934	—	—	—	—	—	—	—	98,934
Items in the course of collection from other banks		5,768	—	—	—	—	—	—	—	5,768
Hong Kong Government certificates of indebtedness		28,410	—	—	—	—	—	—	—	28,410
Trading assets		224,691	34	—	—	—	112	—	—	224,837
Financial assets designated at fair value		429	194	222	83	390	896	2,603	19,035	23,852
Derivatives		285,797	215	223	198	33	499	841	670	288,476
Loans and advances to banks		57,296	14,530	4,063	1,964	2,499	5,134	3,274	1,641	90,401
Loans and advances to customers		176,862	69,638	54,730	33,095	34,774	81,560	201,253	272,542	924,454
Reverse repurchase agreements – non-trading		110,478	21,978	7,220	2,786	580	2,985	228	—	146,255
Financial investments		35,104	59,098	36,897	19,102	17,293	48,634	94,549	118,278	428,955
Assets held for sale	1	15,816	2,628	2,544	1,218	2,611	4,675	6,365	4,422	40,279
Accrued income and other financial assets		12,732	6,682	1,995	483	395	463	445	2,115	25,310
Financial assets at 31 Dec 2015		1,052,317	174,997	107,894	58,929	58,575	144,958	309,558	418,703	2,325,931

Non-financial assets	—	—	—	—	—	—	—	83,725	83,725
Total assets at 31 Dec 2015	1,052,317	174,997	107,894	58,929	58,575	144,958	309,558	502,428	2,409,656
Financial liabilities									
Hong Kong currency notes in circulation	28,410	—	—	—	—	—	—	—	28,410
Deposits by banks	46,693	2,225	1,049	325	116	712	3,182	69	54,371
Customer accounts	1,185,091	50,831	21,397	10,421	10,869	6,596	3,852	529	1,289,586
Repurchase agreements – non-trading	73,478	3,788	1,816	164	154	—	500	500	80,400
Items in the course of transmission to other banks	5,638	—	—	—	—	—	—	—	5,638
Trading liabilities	111,691	1,471	1,529	882	2,184	4,344	10,105	9,408	141,614
Financial liabilities designated at fair value	2,036	1,822	2,943	342	1,900	4,930	14,316	38,119	66,408
Derivatives	276,765	34	251	213	52	524	1,063	2,169	281,071
Debt securities in issue	16,536	9,326	16,295	5,542	1,365	10,754	22,866	6,265	88,949
Liabilities of disposal groups held for sale [1]	20,350	1,416	1,548	1,344	1,246	5,050	1,484	115	32,553
Accruals and other financial liabilities	14,802	7,965	2,467	659	421	925	1,454	665	29,358
Subordinated liabilities	—	401	—	—	34	650	4,579	17,038	22,702
Financial liabilities at 31 Dec 2015	1,781,490	79,279	49,295	19,892	18,341	34,485	63,401	74,877	2,121,060
Non-financial liabilities	—	—	—	—	—	—	—	91,078	91,078
Total liabilities at 31 Dec 2015	1,781,490	79,279	49,295	19,892	18,341	34,485	63,401	165,955	2,212,138

1 The assets and liabilities of the disposal groups classified as held for sale are disclosed in Note 11. Where an agreed or expected closing date exists, the underlying contractual maturities of the related assets and liabilities are no longer relevant to HSBC and these assets and liabilities are classified in accordance with the closing date of the disposal transaction. For all other disposal groups, the assets and liabilities are classified on the basis of the contractual maturity of the underlying instruments and not on the basis of the disposal.

Notes on the Financial Statements (unaudited) (continued)

16 Provisions

	Restructuring costs	Contractual commitments	Legal proceedings and regulatory matters	Customer remediation	Other provisions	Total
	$m	$m	$m	$m	$m	$m
At 1 Jan 2016	463	240	3,174	1,340	335	5,552
Additional provisions/increase in provisions	128	65	799	114	93	1,199
Provisions utilised	(96)	—	(180)	(347)	(54)	(677)
Amounts reversed	(66)	(57)	(39)	(15)	(42)	(219)
Unwinding of discounts	—	—	(2)	—	4	2
Exchange differences and other movements	(21)	8	33	(105)	25	(60)
At 30 Jun 2016	408	256	3,785	987	361	5,797
At 1 January 2015	197	234	2,184	1,831	552	4,998
Additional provisions/increase in provisions	92	35	1,432	155	45	1,759
Provisions utilised	(47)	(1)	(145)	(450)	(71)	(714)
Amounts reversed	(13)	(10)	(86)	(13)	(50)	(172)
Unwinding of discounts	—	—	24	4	—	28
Exchange differences and other movements	(34)	(89)	(441)	(173)	(37)	(774)
At 30 Jun 2015	195	169	2,968	1,354	439	5,125
At 1 Jul 2015	195	169	2,968	1,354	439	5,125
Additional provisions/increase in provisions	338	85	721	610	93	1,847
Provisions utilised	(48)	(1)	(474)	(406)	(88)	(1,017)
Amounts reversed	(16)	(5)	(9)	(157)	(83)	(270)
Unwinding of discounts	—	—	16	2	—	18
Exchange differences and other movements	(6)	(8)	(48)	(63)	(26)	(151)
At 31 Dec 2015	463	240	3,174	1,340	335	5,552

Further details of ‘Legal proceedings and regulatory matters’ are set out in Note 19. Legal proceedings include civil court, arbitration or tribunal proceedings brought against HSBC companies (whether by way of claim or counterclaim) or civil disputes that may, if not settled, result in court, arbitration or tribunal proceedings. Regulatory matters refer to investigations, reviews and other actions carried out by, or in response to the actions of, regulators or law enforcement agencies in connection with alleged wrongdoing by HSBC.

Further details of ‘Customer remediation’ are set out in this note. The term refers to activities (root cause analysis, customer contact, case reviews, decision making and redress calculations) carried out by HSBC to compensate customers for losses or damages associated with a failure to comply with regulations or to treat customers fairly. Customer remediation is often initiated by HSBC in response to customer complaints and/or industry developments in sales practices, and is not necessarily initiated by regulatory action.

Payment Protection Insurance

At 30 June 2016, a provision of $720m (31 December 2015: $1,039m) was held relating to the estimated liability for redress in respect of the potential mis-selling of payment protection insurance ('PPI') policies in previous years. There has been no additional charge recorded in 1H16 for PPI.

Cumulative provisions made since the Judicial Review ruling in the first half of 2011 amount to $4.6bn of which $3.9bn has been paid as at 30 June 2016.

The estimated liability for redress is calculated on the basis of the total premiums paid by the customer plus simple interest of 8% per annum (or the rate inherent in the related loan product where higher). The basis for calculating the redress liability is the same for single premium and regular premium policies. Future estimated redress levels are based on historically observed redress per policy.

A total of 5.4m PPI policies have been sold by HSBC since 2000 which generated estimated gross written premiums of approximately $4.6bn and revenues of approximately $3.7bn at 1H16 average exchange rates. At 30 June 2016, the estimated total complaints expected to be received was two million, representing 36% of total policies sold. It is estimated that contact will be made with regard to 2.3m policies, representing 43% of total policies sold. This estimate includes inbound complaints as well as HSBC's proactive contact exercise on certain policies ('outbound contact').

The following table details the cumulative number of complaints received at 30 June 2016 and the number of claims expected in the future:

	Footnotes	Cumulative to 30 Jun 2016	Future expected
Inbound complaints (000s of policies)	1	1,289	285
Outbound contact (000s of policies)		725	1
Response rate to outbound contact		42%	37%
Average uphold rate per claim	2	75%	85%
Average redress per claim ($)		2,824	2,873
Complaints to the Financial Ombudsman Service ('FOS') (000s of policies)		130	41
Average uphold rate per FOS complaint		40%	61%

1 Excludes invalid claims where the complainant has not held a PPI policy and FOS complaints.
2 Claims include inbound and responses to outbound contact, but exclude FOS complaints.

A 100,000 increase/decrease in the total inbound complaints would increase/decrease the redress provision by approximately $199m. Each 1% increase/decrease in the response rate to our outbound contact exercise would increase/decrease the redress provision by approximately $12m.

Brazilian labour, civil and fiscal claims

Brazilian labour, civil and fiscal litigation provisions were $495m (31 December 2015: $363m) at 30 June 2016. Of these provisions, $229m (31 December 2015: $168m) was in respect of labour and overtime litigation claims brought by past employees against HSBC operations in Brazil following their departure from the bank. The main assumptions involved in estimating the liability are the expected number of departing employees, individual salary levels and the facts and circumstances of each individual case. These provisions form part of the Brazilian disposal group and were classified as 'held for sale' at 30 June 2016 (see Note 11).

17 Deferred tax

Net deferred tax assets amounted to $3.6bn at 30 June 2016 (30 June 2015: $4.5bn; 31 December 2015: $4.3bn) and mainly relate to timing differences in the US.

18 Contingent liabilities, contractual commitments and guarantees

	At 30 Jun 2016 $m	31 Dec 2015 $m
Guarantees and contingent liabilities		
Guarantees	86,375	85,855
Other contingent liabilities	546	490
	86,921	86,345
Commitments		
Documentary credits and short-term trade-related transactions	9,518	10,168
Forward asset purchases and forward forward deposits placed	3,055	981
Undrawn formal standby facilities, credit lines and other commitments to lend	655,037	655,281
	667,610	666,430

The above table discloses the nominal principal amounts of commitments, guarantees and other contingent liabilities. Contingent liabilities arising from legal proceedings, regulatory and other matters against the Group are disclosed in Note 19. Nominal principal amounts represent the amounts at risk should contracts be fully drawn upon and clients default. As a significant proportion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements.

Capital commitments

In addition to the commitments disclosed above, at 30 June 2016 HSBC had $402m (31 December 2015: $468m) of capital commitments contracted but not provided for and $36m (31 December 2015: $100m) of capital commitments authorised but not contracted for.

Notes on the Financial Statements (unaudited) (continued)

19 Legal proceedings and regulatory matters

HSBC is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, HSBC considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 29 of the Annual Report and Accounts 2015. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 30 June 2016 (see Note 16). Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Securities litigation

Household International, Inc. (‘Household International’) and certain former officers were named as defendants in a securities class action lawsuit, Jaffe v. Household International, Inc., et al., filed in the US District Court for the Northern District of Illinois (the ‘Illinois District Court’) in August 2002. The complaint asserted claims under the US Securities Exchange Act and alleged that the defendants knowingly or recklessly made false and misleading statements of material fact relating to Household International’s Consumer Lending operations (some of which ultimately led to a 2002 settlement with 46 states and the District of Columbia) and certain accounting practices, as evidenced by an August 2002 restatement of previously reported consolidated financial statements. A class was certified on behalf of all persons who acquired and disposed of Household International common stock between July 1999 and October 2002.

In April 2009, a jury trial was decided partly in favour of the plaintiffs.

After a court-appointed claims administrator reported that 45,921 claims generated an allowed aggregate loss of approximately $2.2bn, the Illinois District Court entered a partial final judgement against the defendants in October 2013 in the amount of approximately $2.5bn (including pre-judgement interest). The defendants appealed the partial final judgement.

In addition, there were objections regarding approximately $625m in additional claims, prior to the imposition of pre-judgement interest, which remained pending before the Illinois District Court.

In May 2015, the US Court of Appeals for the Seventh Circuit reversed the partial final judgement of the Illinois District Court and remanded the case for a new trial on loss causation.

In June 2016, HSBC reached an agreement to pay $1.575bn to settle all claims. The court granted preliminary approval of the settlement, and HSBC made payment of the agreed settlement amount into an escrow account in July 2016. Final court approval is pending.

Bernard L. Madoff Investment Securities LLC

Bernard L. Madoff (‘Madoff’) was arrested in December 2008 and later pleaded guilty to running a Ponzi scheme. His firm, Bernard L. Madoff Investment Securities LLC (‘Madoff Securities’), is being liquidated in the US by a trustee (the ‘Trustee’).

Various non-US HSBC companies provided custodial, administration and similar services to a number of funds incorporated outside the US whose assets were invested with Madoff Securities. Based on information provided by Madoff Securities, as at 30 November 2008, the purported aggregate value of these funds was $8.4bn, including fictitious profits reported by Madoff. Based on information available to HSBC, we have estimated that the funds’ actual transfers to Madoff Securities minus their actual withdrawals from Madoff Securities during the time HSBC serviced the funds totalled approximately $4bn. Various HSBC companies have been named as defendants in lawsuits arising out of Madoff Securities’ fraud.

US/UK litigation: The Trustee has brought lawsuits against various HSBC companies in the US Bankruptcy Court and in the English High Court, seeking recovery of transfers from Madoff Securities to HSBC in an amount not yet pleaded or determined. HSBC and other parties to the action have moved to dismiss the Trustee’s US actions. The deadline by which the Trustee must serve HSBC with his English action has been extended to the end of the third quarter of 2016.

Alpha Prime Fund Ltd (‘Alpha Prime’) and Senator Fund SPC (‘Senator’), co-defendants in one of the Trustee’s US actions, have each brought cross-claims against certain HSBC defendants. HSBC has moved to dismiss those cross-claims.

Fairfield Sentry Limited, Fairfield Sigma Limited and Fairfield Lambda Limited (together, ‘Fairfield’) (in liquidation since July 2009) have brought lawsuits in the US and the British Virgin Islands (‘BVI’) against fund shareholders, including HSBC companies that acted as nominees for clients, seeking restitution of redemption payments. Fairfield’s US actions are stayed pending the outcome of the action in the BVI (see below).

In December 2014, three additional actions were filed in the US. A purported class of direct investors in Madoff Securities asserted common law claims against various HSBC companies in the United States District Court for the Southern District of New York (the ‘New York District Court’). Two investors in Hermes International Fund Limited (‘Hermes’) also asserted common law claims against various HSBC companies in the New York District Court. HSBC has moved to dismiss both actions. In addition, SPV Optimal SUS Ltd (‘SPV OSUS’), the purported assignee of the Madoff-invested company, Optimal Strategic US Equity Ltd, filed a lawsuit in New York state court against various HSBC companies and others, seeking damages on various alleged grounds, including breach of fiduciary duty and breach of trust.

BVI litigation: Beginning in October 2009, liquidators for Fairfield (‘Fairfield Liquidators’) commenced lawsuits against fund shareholders, including HSBC companies that acted as nominees for clients, seeking recovery of redemption payments. In

March 2016, the BVI court denied a motion brought by certain non-HSBC defendants challenging the Fairfield Liquidators' authorisation to pursue their US claims, which those defendants have appealed.

Bermuda litigation: In January 2009, Kingate Global Fund Limited and Kingate Euro Fund Limited (together, 'Kingate') brought an action against HSBC Bank Bermuda Limited ('HBBM') for recovery of funds held in Kingate's accounts, fees and dividends. This action is pending, but is not expected to move forward until the resolution of the Trustee's US actions against Kingate and HBBM.

Thema Fund Limited ('Thema') and Hermes each brought three actions in 2009. The first set of actions seeks recovery of funds in frozen accounts held at HSBC Institutional Trust Services (Bermuda) Limited. The second set of actions asserts liability against HSBC Institutional Trust Services (Bermuda) Limited in relation to claims for mistake, recovery of fees and damages for breach of contract. The third set of actions seeks return of fees from HBBM and HSBC Securities Services (Bermuda) Limited. The parties have agreed to a standstill in respect of all three sets of actions.

Cayman Islands litigation: In February 2013, Primeo Fund Limited ('Primeo') (in liquidation since April 2009) brought an action against HSBC Securities Services Luxembourg ('HSSL') and The Bank of Bermuda (Cayman), alleging breach of contract and breach of fiduciary duty, and claiming damages and equitable compensation. Trial is scheduled to begin in November 2016.

Luxembourg litigation: In April 2009, Herald Fund SPC ('Herald') (in liquidation since July 2013) brought an action against HSSL before the Luxembourg District Court, seeking restitution of cash and securities Herald purportedly lost because of Madoff Securities' fraud, or money damages. The Luxembourg District Court dismissed Herald's securities restitution claim, but reserved Herald's cash restitution claim and its claim for money damages. Herald has appealed this judgement.

In March 2010, Herald (Lux) SICAV ('Herald (Lux)') (in liquidation since April 2009) brought an action against HSSL before the Luxembourg District Court seeking restitution of securities, or the cash equivalent, or money damages. Herald (Lux) has also requested the restitution of fees paid to HSSL.

Alpha Prime and Senator have each brought an action against HSSL before the Luxembourg District Court, seeking the restitution of securities, or the cash equivalent, or money damages. Both matters have been temporarily suspended at the request of Alpha Prime and Senator, respectively. In April 2015, Senator commenced an action against the Luxembourg branch of HSBC Bank plc asserting identical claims before the Luxembourg District Court.

HSSL has also been named as a defendant in various actions by shareholders in Primeo Select Fund, Herald, Herald (Lux), and Hermes. Most of these actions have been dismissed, suspended or postponed.

Ireland litigation: In November 2013, Defender Limited brought an action against HSBC Institutional Trust Services (Ireland) Limited ('HTIE') and others, alleging breach of contract and claiming damages and indemnification for fund losses. A trial date has not yet been scheduled.

In May 2016, following a hearing on two preliminary issues, HTIE was successful in obtaining an order dismissing two remaining claims by purported shareholders in Thema International Fund plc.

SPV OSUS's action against HTIE and HSBC Securities Services (Ireland) Limited alleging breach of contract and claiming damages and indemnification for fund losses was dismissed in October 2015. SPV OSUS's appeal is scheduled for hearing in January 2017.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of the various Madoff-related proceedings described above, including but not limited to the multiple jurisdictions in which the proceedings have been brought. Based upon the information currently available, management's estimate of possible aggregate damages that might arise as a result of all claims in the various Madoff-related proceedings is up to or exceeding $800m, excluding costs and interest. Due to uncertainties and limitations of this estimate, the ultimate damages could differ significantly from this amount.

US mortgage-related investigations

In April 2011, HSBC Bank USA N.A. ('HSBC Bank USA') entered into a consent order with the Office of the Comptroller of the Currency ('OCC'), and HSBC Finance Corporation ('HSBC Finance') and HSBC North America Holdings Inc. ('HNAH') entered into a similar consent order with the Federal Reserve Board ('FRB') (together with the OCC order, the 'Servicing Consent Orders'). The Servicing Consent Orders require prescribed actions to address certain foreclosure practice deficiencies. The Servicing Consent Orders also required an independent foreclosure review which, pursuant to amendments to the Servicing Consent Orders in February 2013, ceased and was replaced by a settlement under which HSBC and 12 other participating servicers agreed to provide cash payments and other assistance to eligible borrowers. In June 2015, the OCC issued an amended consent order citing the failure of HSBC Bank USA to be in compliance with all requirements of the OCC order. A failure to satisfy all requirements of the OCC order may result in a variety of regulatory consequences for HSBC Bank USA, including the imposition of civil money penalties.

In February 2016, HSBC Bank USA, HSBC Finance, HSBC Mortgage Services Inc. and HNAH entered into an agreement with the US Department of Justice (the 'DoJ'), the US Department of Housing and Urban Development, the Consumer Financial Protection Bureau, other federal agencies (the 'Federal Parties') and the Attorneys General of 49 states and the District of Columbia (the 'State Parties') to resolve civil claims related to past residential mortgage loan origination and servicing practices (the 'National Mortgage Settlement Agreement'). In addition, in February 2016, the FRB announced the imposition against HSBC Finance and HNAH of a $131m civil money penalty in connection with the FRB's consent order of April 2011. Pursuant to the terms of the FRB's civil money penalty order, the penalty will be satisfied through the cash payments made to the Federal Parties and the consumer relief provided under the National Mortgage Settlement Agreement.

Notes on the Financial Statements (unaudited) (continued)

The Servicing Consent Orders and the National Mortgage Settlement Agreement do not completely preclude other enforcement actions by regulatory, governmental or law enforcement agencies related to foreclosure and other mortgage servicing practices, including, but not limited to, matters relating to the securitisation of mortgages for investors, which could include the imposition of civil money penalties, criminal fines or other sanctions. In addition, these practices have in the past resulted in private litigation, and may result in further private litigation.

US mortgage securitisation activity and litigation

HSBC Bank USA was a sponsor or seller of loans used to facilitate whole loan securitisations underwritten by HSBC Securities (USA) Inc. ('HSI'). From 2005 to 2007, HSBC Bank USA purchased and sold $24bn of such loans to HSI, which were subsequently securitised and sold by HSI to third parties. The outstanding principal balance on these loans was approximately $4.9bn as at 30 June 2016. In addition, HSBC Bank USA served as trustee on behalf of various mortgage securitisation trusts.

As the industry's residential mortgage foreclosure issues continue, HSBC Bank USA has taken title to a number of foreclosed homes as trustee on behalf of various mortgage securitisation trusts. As nominal record owner of these properties, HSBC Bank USA has been sued by municipalities and tenants alleging various violations of law, including laws relating to property upkeep and tenants' rights. While HSBC believes and continues to maintain that these obligations and any related liabilities are those of the servicer of each trust, HSBC continues to receive significant adverse publicity in connection with these and similar matters, including foreclosures that are serviced by others in the name of 'HSBC, as trustee'.

Beginning in June 2014, a number of lawsuits were filed in state and federal court in New York and Ohio against HSBC Bank USA as trustee of over 320 mortgage securitisation trusts. These lawsuits are brought on behalf of the trusts by a putative class of investors including, among others, BlackRock and PIMCO funds. The complaints allege that the trusts have sustained losses in collateral value of approximately $38bn. The lawsuits seek unspecified damages resulting from alleged breaches of the US Trust Indenture Act, breach of fiduciary duty, negligence, breach of contract and breach of the common law duty of trust. HSBC's motions to dismiss in several of these lawsuits were, for the most part, denied.

HSBC Bank USA, HSBC Finance and Decision One Mortgage Company LLC (an indirect subsidiary of HSBC Finance) ('Decision One') have been named as defendants in various mortgage loan repurchase actions brought by trustees of mortgage securitisation trusts. In the aggregate, these actions seek to have the HSBC defendants repurchase mortgage loans, or pay compensatory damages, totalling at least $1bn. One of these actions has been scheduled for trial in September 2016.

HSBC Mortgage Corporation (USA) Inc. and Decision One have also been named as defendants in two separate actions filed by Residential Funding Company LLC ('RFC'), a mortgage loan purchase counterparty, seeking unspecified damages in connection with approximately 25,000 mortgage loans.

Since 2010, various HSBC entities have received subpoenas and requests for information from the DoJ and the Massachusetts state Attorney General seeking the production of documents and information regarding HSBC's involvement in specific private-label RMBS transactions as an issuer, sponsor, underwriter, depositor, trustee, custodian or servicer. In November 2014, HNAH, on behalf of itself and various subsidiaries including, but not limited to, HSBC Bank USA, HSI Asset Securitization Corp., HSI, HSBC Mortgage Corporation (USA), HSBC Finance and Decision One, received a subpoena from the US Attorney's Office for the District of Colorado, pursuant to the Financial Industry Reform, Recovery and Enforcement Act ('FIRREA'), concerning the origination, financing, purchase, securitisation and servicing of subprime and non-subprime residential mortgages. Five non-HSBC banks have previously reported settlements with the DoJ of FIRREA and other mortgage-backed securities-related matters. HSBC is cooperating with the US authorities and is continuing to produce documents and information responsive to their requests.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact of these matters, which could be significant.

HSBC expects the focus on mortgage securitisations to continue and may be subject to additional claims, litigation and governmental or regulatory scrutiny relating to its participation in the US mortgage securitisation market.

Anti-money laundering and sanctions-related matters

In October 2010, HSBC Bank USA entered into a consent order with the OCC, and HNAH entered into a consent order with the FRB (each an 'Order' and together, the 'Orders'). These Orders required improvements to establish an effective compliance risk management programme across HSBC's US businesses, including risk management related to the Bank Secrecy Act ('BSA') and AML compliance. HSBC Bank USA is not currently in compliance with the OCC Order. Steps are being taken to address the requirements of the Orders.

In December 2012, HSBC Holdings, HNAH and HSBC Bank USA entered into agreements with US and UK government agencies regarding past inadequate compliance with the BSA, AML and sanctions laws. Among those agreements, HSBC Holdings and HSBC Bank USA entered into a five-year deferred prosecution agreement with, among others, the DoJ (the 'US DPA'); and HSBC Holdings consented to a cease-and-desist order, and HSBC Holdings and HNAH consented to a civil money penalty order with the FRB. HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions, as well as an undertaking with the UK FCA to comply with certain forward-looking AML and sanctions-related obligations. In addition, HSBC Bank USA entered into civil money penalty orders with the Financial Crimes Enforcement Network of the US Treasury Department and the OCC.

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totalling $1.9bn to US authorities and undertook various further obligations, including, among others, to continue to cooperate fully with the DoJ in any and all investigations, not to commit any crime under US federal law subsequent to the signing of the agreement, and to retain an independent compliance monitor (the 'Monitor'). In January 2016, the Monitor delivered his second annual follow-up review report. Through his country-level reviews, the Monitor identified potential anti-money laundering and sanctions compliance issues that the DoJ and HSBC are reviewing further. Additionally, as discussed elsewhere in this Note, HSBC is the subject of other ongoing investigations and reviews by the DoJ. The potential consequences of breaching the US DPA, as well as the role of the Monitor and his second annual review, are discussed on pages 113 and 116 of the Annual Report and Accounts 2015.

HSBC Bank USA also entered into two consent orders with the OCC. These required HSBC Bank USA to correct the circumstances noted in the OCC's report and to adopt an enterprise-wide compliance programme, and imposed restrictions on acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary, without the OCC's prior approval.

These settlements with US and UK authorities have led to private litigation, and do not preclude further private litigation related to HSBC's compliance with applicable BSA, AML and sanctions laws or other regulatory or law enforcement actions for BSA, AML, sanctions or other matters not covered by the various agreements.

In May 2014, a shareholder derivative action was filed by a shareholder of HSBC Holdings purportedly on behalf of HSBC Holdings, HSBC Bank USA, HNAH and HSBC USA Inc. (the 'Nominal Corporate Defendants') in New York state court against certain current and former directors and officers of those HSBC companies (the 'Individual Defendants'). The complaint alleges that the Individual Defendants breached their fiduciary duties to the Nominal Corporate Defendants and caused a waste of corporate assets by allegedly permitting and/or causing the conduct underlying the US DPA. In November 2015, the New York state court granted the Nominal Corporate Defendants' motion to dismiss. The plaintiff has appealed that decision.

In July 2014, a claim was filed in the Ontario Superior Court of Justice against HSBC Holdings and a former employee purportedly on behalf of a class of persons who purchased HSBC common shares and American Depositary Shares between July 2006 and July 2012. The complaint, which seeks monetary damages of up to CA$20bn, alleges that the defendants made statutory and common law misrepresentations in documents released by HSBC Holdings and its wholly owned subsidiary, HSBC Bank Canada, relating to HSBC's compliance with BSA, AML, sanctions and other laws.

In November 2014, a complaint was filed in the US District Court for the Eastern District of New York on behalf of representatives of US persons alleged to have been killed or injured in Iraq between April 2004 and November 2011. The complaint was filed against HSBC Holdings, HSBC Bank plc, HSBC Bank USA and HSBC Bank Middle East, as well as other non-HSBC banks and the Islamic Republic of Iran. The plaintiffs allege that defendants violated the US Anti-Terrorism Act ('US ATA') by altering or falsifying payment messages involving Iran, Iranian parties and Iranian banks for transactions processed through the US. Defendants filed a motion to dismiss in May 2015.

In November 2015, a complaint was filed in the Illinois District Court on behalf of representatives of US persons alleged to have been killed or injured in terrorist attacks on three hotels in Amman, Jordan in 2005. The complaint was filed against HSBC Holdings, HSBC Bank USA, HNAH, HSI, HSBC Finance, HSBC USA Inc. and HSBC Bank Middle East, as well as a non-HSBC bank. The plaintiffs allege that the HSBC defendants violated the US ATA by failing to enforce due diligence methods to prevent its financial services from being used to support the terrorist attacks.

In February 2016, a complaint was filed in the US District Court for the Southern District of Texas by representatives of US persons alleged to have been killed or injured in Mexico by Mexican drug cartels. The complaint was filed against HSBC Holdings, HSBC Bank USA, HSBC México SA, and Grupo Financiero HSBC. The plaintiffs allege that defendants violated the US ATA by providing financial services to individuals and entities associated with the Mexican drug cartels. In June 2016, HSBC filed a motion to transfer the case to the New York District Court, and a motion to dismiss in respect of certain of the HSBC defendants.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these lawsuits, including the timing or any possible impact on HSBC, which could be significant.

Tax-related investigations

HSBC continues to cooperate in ongoing investigations by the DoJ and the US Internal Revenue Service regarding whether certain HSBC companies and employees, including those associated with HSBC Private Bank (Suisse) SA ('HSBC Swiss Private Bank') and an HSBC company in India, acted appropriately in relation to certain customers who had US tax reporting obligations. In connection with these investigations, HSBC Swiss Private Bank, with due regard for Swiss law, has produced records and other documents to the DoJ. In August 2013, the DoJ informed HSBC Swiss Private Bank that it was not eligible for the 'Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks' since a formal investigation had previously been authorised.

In addition, various tax administration, regulatory and law enforcement authorities around the world, including in Belgium, France, Argentina and India, are conducting investigations and reviews of HSBC Swiss Private Bank and other HSBC companies in connection with allegations of tax evasion or tax fraud, money laundering and unlawful cross-border banking solicitation. HSBC Swiss Private Bank has been placed under formal criminal examination by magistrates in both Belgium and France. In April 2015, HSBC Holdings was informed that it has been placed under formal criminal investigation by the French magistrates in connection with the conduct of HSBC Swiss Private Bank in 2006 and 2007 for alleged tax offences, and a €1bn bail was imposed. HSBC Holdings appealed the magistrates' decision and, in June 2015, bail was reduced to €100m. The ultimate financial impact of this matter could differ significantly, however, from the bail amount of €100m. In March 2016, HSBC was informed that the French magistrates are of the view that they have completed their investigation with respect to HSBC Swiss Private Bank and HSBC Holdings, and have referred the matter to the public prosecutor for a recommendation on any potential charges to be brought.

Notes on the Financial Statements (unaudited) (continued)

In November 2014, the Argentine tax authority initiated a criminal action against various individuals, including current and former HSBC employees. The criminal action includes allegations of tax evasion, conspiracy to launder undeclared funds and an unlawful association among HSBC Swiss Private Bank, HSBC Bank Argentina, HSBC Bank USA and certain HSBC employees, which allegedly enabled numerous HSBC customers to evade their Argentine tax obligations.

In February 2015, the Indian tax authority issued a summons and request for information to an HSBC company in India. In August 2015 and November 2015, HSBC companies received notices issued by two offices of the Indian tax authority, alleging that the Indian tax authority had sufficient evidence to initiate prosecution against HSBC Swiss Private Bank and its Dubai entity for abetting tax evasion of four different Indian individuals and/or families and requesting that the HSBC companies show why such prosecution should not be initiated.

HSBC is cooperating with the relevant authorities. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these investigations and reviews, which could be significant.

In light of the media attention regarding these matters, it is possible that other tax administration, regulatory or law enforcement authorities will also initiate or enlarge similar investigations or regulatory proceedings.

Mossack Fonseca & Co.

HSBC has received requests for information from various regulatory and law enforcement authorities around the world concerning persons and entities believed to be linked to Mossack Fonseca & Co., a service provider of personal investment companies. HSBC is cooperating with the relevant authorities.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of this matter, including the timing or any possible impact on HSBC, which could be significant.

London interbank offered rates, European interbank offered rates and other benchmark interest rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world, including in the UK, the US, the EU and Switzerland, are conducting investigations and reviews related to certain past submissions made by panel banks and the processes for making submissions in connection with the setting of Libor, Euribor and other benchmark interest rates. As certain HSBC companies are members of such panels, HSBC has been the subject of regulatory demands for information and is cooperating with those investigations and reviews.

In May 2014, HSBC received a Statement of Objections from the European Commission (the ‘Commission’), alleging anti-competitive practices in connection with the pricing of euro interest rate derivatives. The Statement of Objections sets out the Commission’s preliminary views and does not prejudge the final outcome of its investigation. HSBC responded to the Commission’s Statement of Objections in March 2015, and a hearing before the Commission took place in June 2015. A decision by the Commission is pending.

US dollar Libor: Beginning in 2011, HSBC and other panel banks have been named as defendants in a number of private lawsuits filed in the US with respect to the setting of US dollar Libor. The complaints assert claims under various US laws, including US antitrust and racketeering laws, the US Commodity Exchange Act (‘US CEA’), and state law. The lawsuits include individual and putative class actions, most of which have been transferred and/or consolidated for pre-trial purposes before the New York District Court.

The New York District Court has issued decisions dismissing certain of the claims in response to motions filed by the defendants. Those decisions resulted in the dismissal of the plaintiffs’ federal and state antitrust claims, racketeering claims, and unjust enrichment claims. Dismissal of certain of these claims was appealed to the US Court of Appeals for the Second Circuit, which reversed the New York District Court’s dismissal of plaintiffs’ antitrust claims in May 2016.

Euroyen Tokyo interbank offered rate (‘Tibor’) and/or Japanese yen Libor: In April 2012 and July 2015, HSBC and other panel banks were named as defendants in putative class actions filed in the New York District Court on behalf of persons who transacted in financial instruments allegedly related to the euroyen Tibor and/or Japanese yen Libor. The complaints allege, among other things, misconduct related to euroyen Tibor, although HSBC is not a member of the Japanese Bankers Association’s euroyen Tibor panel, as well as Japanese yen Libor, in violation of US antitrust laws, the US CEA, and state law. In May 2016, HSBC reached an agreement in principle with plaintiffs to resolve both of these actions, subject to court approval. The court granted preliminary approval of the settlement in June 2016, and HSBC made payment of the agreed settlement amount into an escrow account. The final settlement approval hearing is scheduled for November 2016.

Euribor: In November 2013, HSBC and other panel banks were named as defendants in a putative class action filed in the New York District Court on behalf of persons who transacted in euro futures contracts and other financial instruments allegedly related to Euribor. The complaint alleges, among other things, misconduct related to Euribor in violation of US antitrust laws, the US CEA and state law. In May 2016, HSBC reached an agreement in principle with plaintiffs to resolve this action, subject to court approval.

Singapore Interbank Offered Rate ('SIBOR') and/or Singapore Swap Offer Rate ('SOR'): In July 2016, HSBC and other panel banks were named as defendants in a putative class action filed in the New York District Court on behalf of persons who transacted in products related to SIBOR and/or SOR. The complaint alleges, among other things, misconduct related to SIBOR and/or SOR in violation of US antitrust and racketeering laws, and state law. This matter is at an early stage.

US dollar International Swaps and Derivatives Association fix ('ISDAfix'): In September 2014, HSBC and other panel banks were named as defendants in a number of putative class actions consolidated in the New York District Court on behalf of persons who transacted in interest rate derivatives or purchased or sold financial instruments that were either tied to ISDAfix rates or were executed shortly before, during, or after the time of the daily ISDAfix setting window. The consolidated complaint alleges, among other things, misconduct related to these activities in violation of US antitrust laws, the US CEA and state law. HSBC's motion to dismiss the complaint was denied in March 2016.

There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters, which could be significant.

Foreign exchange rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world, including in the US, the EU, Brazil and South Korea, are conducting investigations and reviews into trading by HSBC and others on the foreign exchange markets. HSBC is cooperating with these investigations and reviews.

In May 2015, the DoJ resolved its investigations with respect to five non-HSBC financial institutions, four of whom agreed to plead guilty to criminal charges of conspiring to manipulate prices in the foreign exchange spot market, and resulting in the imposition of criminal fines in the aggregate of more than $2.5bn. Additional penalties were imposed at the same time by the FRB and other banking regulators. HSBC was not a party to these resolutions, and investigations into HSBC by the DoJ, FRB and others around the world continue.

In late 2013 and early 2014, HSBC and other banks were named as defendants in various putative class actions consolidated in the New York District Court. The consolidated complaint alleged, among other things, that the defendants conspired to manipulate the WM/Reuters foreign exchange benchmark rates. In September 2015, HSBC reached an agreement with plaintiffs to resolve the consolidated action, subject to court approval. In December 2015, the court granted preliminary approval of the settlement, and HSBC made payment of the agreed settlement amount into an escrow account. The court has not yet set a date for the final approval hearing.

In June 2015, a putative class action was filed in the New York District Court making similar allegations on behalf of Employee Retirement Income Security Act of 1974 ('ERISA') plan participants, and another complaint was filed in the US District Court for the Northern District of California in May 2015. HSBC filed a motion to transfer the California action to New York, which was granted in November 2015.

In September 2015, two additional putative class actions making similar allegations under Canadian law were issued in Canada against various HSBC companies and other financial institutions.

As at 30 June 2016, HSBC has recognised a provision in the amount of $1.2bn. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters. Due to uncertainties and limitations of these estimates, the ultimate penalties could differ significantly from the amount provided.

Precious metals fix-related investigations and litigation

Various regulators and competition and law enforcement authorities, including in the US and the EU, are conducting investigations and reviews relating to HSBC's precious metals operations and trading. HSBC is cooperating with these investigations and reviews. In November 2014, the Antitrust Division and Criminal Fraud Section of the DoJ issued a document request to HSBC Holdings, seeking the voluntary production of certain documents in connection with a criminal investigation that the DoJ is conducting of alleged anti-competitive and manipulative conduct in precious metals trading. In January 2016, the Antitrust Division of the DoJ informed HSBC that it was closing its investigation; however, the Criminal Fraud Section's investigation remains ongoing.

Gold: Beginning in March 2014, numerous putative class actions were filed in the New York District Court and the US District Courts for the District of New Jersey and the Northern District of California, naming HSBC and other members of The London Gold Market Fixing Limited as defendants. The complaints allege that, from January 2004 to the present, defendants conspired to manipulate the price of gold and gold derivatives for their collective benefit in violation of US antitrust laws, the US CEA and New York state law. The actions were consolidated in the New York District Court. Defendants moved to dismiss the consolidated action and a hearing took place in April 2016.

In December 2015, a putative class action under Canadian law was filed in the Ontario Superior Court of Justice against various HSBC companies and other financial institutions. Plaintiffs allege that, from January 2004 to March 2014, defendants conspired to manipulate the price of gold and gold-related investment instruments in violation of the Canadian Competition Act and common law.

Silver: Beginning in July 2014, numerous putative class actions were filed in the US District Courts for the Southern and Eastern Districts of New York, naming HSBC and other members of The London Silver Market Fixing Ltd as defendants. The complaints allege that, from January 1999 to the present, defendants conspired to manipulate the price of silver and silver derivatives for their collective benefit in violation of US antitrust laws, the US CEA and New York state law. The actions were consolidated in the New York District Court. Defendants moved to dismiss the consolidated action and a hearing took place in April 2016.

In April 2016, two putative class actions under Canadian law were filed in the Ontario and Quebec Superior Courts of Justice against various HSBC companies and other financial institutions. Plaintiffs in both actions allege that, from January 1999 to August 2014, defendants conspired to manipulate the price of silver and silver-related investment instruments in violation of the Canadian Competition Act and common law. These actions are at an early stage.

Platinum and palladium: Between late 2014 and early 2015, numerous putative class actions were filed in the New York District Court, naming HSBC and other members of The London Platinum and Palladium Fixing Company Limited as defendants. The

Notes on the Financial Statements (unaudited) (continued)

complaints allege that, from January 2008 to the present, defendants conspired to manipulate the price of platinum group metals ('PGM') and PGM-based financial products for their collective benefit in violation of US antitrust laws and the US CEA. Defendants have moved to dismiss the action.

There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters, which could be significant.

Credit default swap litigation

Various HSBC companies, among other financial institutions, ISDA, and Markit, were named as defendants in numerous putative class actions filed in the New York District Court and the Illinois District Court. The actions alleged that the defendants, violated US antitrust laws by, among other things, conspiring to restrict access to credit default swap pricing exchanges and block new entrants into the exchange market. The actions were subsequently consolidated in the New York District Court. In September 2015, the HSBC defendants reached an agreement with plaintiffs to resolve the consolidated action, and final court approval of that settlement was granted in April 2016.

Interest rate swap litigation

In February 2016, various HSBC companies, among others, were added as defendants to a pending putative class action filed in the New York District Court. The amended complaint, along with other complaints filed in the New York District Court and the Illinois District Court, alleged that the defendants violated US antitrust laws by, among other things, conspiring to boycott and eliminate various entities and practices that would have brought exchange trading to buy side investors in the interest rate swaps marketplace. In June 2016, the actions were consolidated in the New York District Court. This matter is at an early stage.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of this matter, including the timing or any possible impact on HSBC, which could be significant.

Economic plans: HSBC Bank Brasil S.A.

In the mid-1980s and early 1990s, certain economic plans were introduced by the government of Brazil to reduce escalating inflation. The implementation of these plans adversely impacted savings account holders, thousands of which consequently commenced legal proceedings against financial institutions in Brazil, including HSBC Bank Brasil S.A. ('HSBC Brazil'), alleging, among other things, that savings account balances were adjusted by a different price index than that contractually agreed, which caused them a loss of income. Certain of these cases have reached the Brazilian Supreme Court. The Supreme Court has suspended all cases pending before lower courts until it delivers a final judgement on the constitutionality of the changes resulting from the economic plans. It is anticipated that the outcome of the Supreme Court's final judgement will set a precedent for all cases pending before the lower courts. Separately, the Brazilian Superior Civil Court is considering matters relating to, among other things, contractual and punitive interest rates to be applied to calculate any loss of income.

In July 2016, HSBC completed the sale of HSBC Brazil to Banco Bradesco S.A. (see Note 11).

Fédération Internationale de Football Association ('FIFA') related investigations

HSBC has received inquiries from the DoJ regarding its banking relationships with certain individuals and entities that are or may be associated with FIFA. The DoJ is investigating whether multiple financial institutions, including HSBC, permitted the processing of suspicious or otherwise improper transactions, or failed to observe applicable AML laws and regulations. HSBC is cooperating with the DoJ's investigation.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of this matter, including the timing or any possible impact on HSBC, which could be significant.

Hiring practices investigation

The US Securities and Exchange Commission (the 'SEC') is investigating multiple financial institutions, including HSBC, in relation to hiring practices of candidates referred by or related to government officials or employees of state-owned enterprises in Asia-Pacific. HSBC has received various requests for information and is cooperating with the SEC's investigation.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of this matter, including the timing or any possible impact on HSBC, which could be significant.

HSBC HOLDINGS PLC
145

20 Goodwill impairment

Impairment testing

As described on page 407 of the Annual Report and Accounts 2015, we test goodwill for impairment at 1 July each year and whenever there is an indication that goodwill may be impaired. At 30 June 2016, we reviewed the inputs used in our most recent impairment test in the light of current economic and market conditions, and identified indicators of impairment for two cash-generating units ('CGUs') disclosed as sensitive in the Annual Report and Accounts 2015.

The indicators related to the perceived increase in the cost of equity for UK and European banks following the UK electorate's vote to leave the European Union ('EU'), and current business performance, as well as the continued reshaping of our Global Private Banking business in Europe. As a result, impairment tests were performed for Global Private Banking – Europe and Global Banking and Markets – Europe at 30 June 2016. The key assumptions and the results of the tests are included in the disclosure below. There were no indicators of impairment in respect of our other CGUs.

The discount rates used for Global Private Banking – Europe and Global Banking and Markets – Europe include a 100bps uplift to reflect the increased risk in European markets following the UK's referendum on membership of the EU. Given the proximity of the referendum to the end of 1H16 and the subsequent market volatility, the adjustment represents management's judgement based on the latest available information, including the latest broker reports. Furthermore, the tests were based on recently updated internal forecasts, which include a preliminary assessment of the impact of the referendum result but may change. Finally, the structure of the Global Private Banking business continues to evolve and this could also impact future tests. All these factors could impact the headroom of these two CGUs in the future.

Impairment test results

	Carrying amount[1]	Value in use	Headroom/ (impairment)	Discount rate	Nominal growth rate beyond initial cash flow projections
Cash-generating unit	\$bn	\$bn	\$bn	%	%
Global Private Banking – Europe	4.4	3.6	(0.8)	9.7	2.8
Global Banking and Markets – Europe	18.9	22.7	3.8	10.7	3.8

1 Included in the carrying amounts of \$4.4bn and \$18.9bn is goodwill of \$3.3bn and \$2.6bn respectively.

As shown above, the Group's Global Private Banking – Europe goodwill balance was impaired by \$752m. This is in addition to a \$48m goodwill impairment charge recognised on certain Global Private Banking – Europe assets classified as held for sale. These amounts have been recognised in the income statement as an impairment loss within 'Amortisation and impairment of intangible assets and goodwill'. The previous value in use amounts for Global Banking and Markets – Europe and Global Private Banking – Europe are disclosed on page 410 of the Annual Report and Accounts 2015. Due to the impairment recognised, Global Private Banking – Europe had nil headroom at 30 June 2016 and therefore any negative movement in the current assumptions would result in the recognition of a further impairment.

Sensitivities of key assumptions in calculating VIU

At 30 June 2016, Global Banking and Markets – Europe was sensitive to reasonably possible changes in the key assumptions supporting the recoverable amount. In making an estimate of reasonably possible changes to assumptions, management considers the available evidence in respect of each input to the model. These include the external range of observable discount rates, historical performance against forecast, and risks attaching to the key assumptions underlying cash flow projections.

Reasonably possible changes in key assumptions

Cash-generating unit	Input	Key assumptions	Associated risks	Reasonably possible change
Global Private Banking – Europe	Cash flow projections	•	•	•

		Achievement of planned strategic repositioning. • Level of assets under management. • Return on assets. • Level of interest rates. • Cost savings from recent investment in new platforms.	Challenges achieving strategic repositioning. • Lower than expected growth in assets under management. •	A negative change in any assumption would result in an additional impairment.
	Discount rate	• Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business.	• External evidence arises to suggest that the rate used is not appropriate to the business.	
	Long-term growth rates	• Business growth will reflect GDP growth rates in the long term.	• Growth does not match GDP, or GDP forecasts fall.	
Global Banking and Markets – Europe	Cash flow projections	• Level of interest rates.		• Cash flow projections decrease by 20%.

Notes on the Financial Statements (unaudited) (continued)

	• Recovery of European markets over the forecast period.	• Lower than expected growth in key markets. • The impact of regulatory changes, including the ring fencing of the UK retail bank.	
Discount rate	• Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business.	• External evidence arises to suggest that the rate used is not appropriate to the business.	• Discount rate increases by 100 basis points.
Long-term growth rates	• Business growth will reflect GDP growth rates in the long term.	• Growth does not match GDP, or GDP forecasts fall.	• Real GDP growth does not occur or is not reflected in performance.

The following table presents the change required to individual current assumptions for Global Banking and Markets – Europe to reduce headroom to nil (break even).

Changes to current assumptions to achieve nil headroom

	Increase/(decrease)		
	Discount rate	Cash flow	Long-term growth rate
	bps	%	bps
Cash-generating unit			
Global Banking and Markets – Europe	139	(16.7)	(177)

21 Transactions with related parties

There were no changes in the related party transactions described in the Annual Report and Accounts 2015 that have had a material effect on the financial position or performance of HSBC in the half-year to 30 June 2016. All related party transactions that took place in the half-year to 30 June 2016 were similar in nature to those disclosed in the Annual Report and Accounts 2015.

22 Events after the balance sheet date

On 1 July 2016, we sold our operations in Brazil, comprising HSBC Bank Brasil S.A. – Banco Múltiplo and HSBC Serviços e Participações Ltda. (collectively 'HSBC Brazil'), to Banco Bradesco S.A. for cash consideration of $4.9bn and recognised a loss on disposal of $1.7bn. HSBC Brazil was classified as held for sale at 30 June 2016 (see Note 11).

On 3 August 2016, the Board approved a share buy-back programme of up to $2.5bn.

A second interim dividend for the financial year ending 31 December 2016 was declared by the Directors on 3 August 2016, as described in Note 2.

23 Interim Report 2016 and statutory accounts

The information in this Interim Report 2016 is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. This Interim Report 2016 was approved by the Board of Directors on 3 August 2016. The statutory accounts of HSBC Holdings for the year ended 31 December 2015 have been delivered to the Registrar of Companies in England and Wales in accordance with section 447 of the Companies Act 2006. The Group's auditor, PricewaterhouseCoopers LLP ('PwC') has reported on those accounts. Its report was unqualified, did not include a reference to any matters to which PwC drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

HSBC HOLDINGS PLC
147

Shareholder information

Shareholder information

1 Directors' interests

According to the register of Directors' interests maintained by HSBC Holdings pursuant to section 352 of the Securities and Futures Ordinance of Hong Kong, at 30 June 2016 the Directors of HSBC Holdings had the following interests, all beneficial unless otherwise stated, in the shares or debentures of HSBC and its associates:

Directors' interests – shares and debentures

			At 30 Jun 2016				
	Footnotes	At 1 Jan 2016	Beneficial owner	Child under 18 or spouse	Jointly with another person	Trustee	Total interests[1]
HSBC Holdings ordinary shares							
Phillip Ameen	3	5,000	5,000	—	—	—	5,000
Kathleen Casey	3	3,540	8,260	—	—	—	8,260
Laura Cha		5,200	5,200	—	—	—	5,200
Henri de Castries		—	15,491	—	—	—	15,491
Lord Evans of Weardale		7,416	7,416	—	—	—	7,416
Joachim Faber		45,778	66,605	—	—	—	66,605
Douglas Flint		401,450	401,796	—	—	—	401,796
Stuart Gulliver		2,861,265	3,056,229	176,885	—	—	3,233,114
Sam Laidlaw		38,012	37,795	—	—	1,416[2]	39,211
Irene Lee		—	10,000	—	—	—	10,000
John Lipsky	3	16,165	16,165	—	—	—	16,165
Rachel Lomax		18,900	18,900	—	—	—	18,900
Iain Mackay		223,872	370,489	—	—	—	370,489
Heidi Miller	3	3,695	3,815	—	—	—	3,815
Marc Moses		624,643	762,161	—	—	—	762,161
David Nish		—	—	50,000	—	—	50,000
Jonathan Symonds		21,771	16,886	4,885	—	—	21,771
Pauline van der Meer Mohr		—	7,000	—	—	—	7,000
Paul Walsh		—	5,000	—	—	—	5,000

1 Details of executive Directors' other interests in HSBC Holdings ordinary shares arising from the HSBC Holdings savings-related share option plans and the HSBC Share Plan 2011 are set out on the following pages. At 30 June 2016, the aggregate interests under the Securities and Futures Ordinance of Hong Kong in

HSBC Holdings ordinary shares, including interests arising through employee share plans, were: Douglas Flint – 404,715; Stuart Gulliver – 6,330,295; Iain Mackay – 1,804,677; and Marc Moses – 2,489,059. Each Director's total interests represent less than 1% of the shares in issue.

2 Non-beneficial.

3 Interests in American Depositary Shares ('ADS'), which are categorised as equity derivatives under Part XV of the Securities and Futures Ordinance of Hong Kong. Each ADS represents five HSBC Holdings ordinary shares.

Shareholder information (continued)

Savings-related share option plans and the HSBC Share Plan 2011
HSBC Holdings savings-related share option plans

	Date of award	Exercise price (£)	Exercisable from	until	HSBC Holdings ordinary shares Held at 1 Jan 2016	Held at 30 Jun 2016
Douglas Flint	23 Sep 2014	5.1887	1 Nov 2019	1 May 2020	2,919	2,919
Iain Mackay	23 Sep 2014	5.1887	1 Nov 2017	1 May 2018	3,469	3,469

There are no performance criteria conditional upon which the outstanding options are exercisable and there have been no variations to the terms and conditions since the awards were made. See page 150 for more details on the HSBC Holdings savings-related share option plans. The market value per ordinary share at 30 June 2016 was £4.66. The highest and lowest market values per ordinary share during the half-year to 30 June 2016 were £5.22 and £4.16. Market value is the mid-market price derived from the London Stock Exchange Daily Official List on the relevant date. Under the Securities and Futures Ordinance of Hong Kong, the options are categorised as unlisted physically settled equity derivatives.

Awards of Restricted Shares
HSBC Share Plan 2011
Vesting of Restricted Share awards is normally subject to the Director remaining an employee on the vesting date. The awards may vest at an earlier date in certain circumstances. Under the Securities and Futures Ordinance of Hong Kong, interests in Restricted Share awards are categorised as the interests of the beneficial owner.

				HSBC Holdings ordinary shares					
	Date of award	Footnotes	Year in which awards may vest	Awards held at 1 Jan 2016	Awards made during the period to 30 Jun 2016 Number	Monetary value £000	Awards vested during the period to 30 Jun 2016 Number	Monetary value £000	Awards held at 30 Jun 2016[1]
Stuart Gulliver	11 Mar 2013	2	2018	92,185	—	—	—	—	95,205
	10 Mar 2014	3	2015-2017	66,016	—	—	34,340	153	33,871
	2 Mar 2015	4	2016-2018	71,004	—	—	24,210	110	49,154
	29 Feb 2016	5	2016	—	45,897	211	45,897	211	—
	29 Feb 2016	6	2017-2019	—	68,845	317	—	—	71,099
Iain Mackay	11 Mar 2013	2	2018	63,730	—	—	—	—	65,817
	10 Mar 2014	3	2015-2017	38,671	—	—	20,116	90	19,841
		4	2016-2018	47,717	—	—	16,270	74	33,033

	2 Mar 2015								
	29 Feb 2016	5	2016	—	45,704	210	45,704	210	—
	29 Feb 2016	6	2017-2019	—	68,556	315	—	—	70,801
Marc Moses	11 Mar 2013	2	2018	61,917	—	—	—	—	63,945
	10 Mar 2014	3	2015-2017	38,668	—	—	20,114	90	19,839
	2 Mar 2015	4	2016-2018	56,893	—	—	19,399	88	39,386
	29 Feb 2016	5	2016	—	35,376	163	35,376	163	—
	29 Feb 2016	6	2017-2019	—	53,065	244	—	—	54,802

1 Includes additional shares arising from scrip dividends.

2 Vesting of these awards is subject to satisfactory completion of the Deferred Prosecution Agreement with the US Department of Justice.

3 At the date of the award, 10 March 2014, the market value per share was £6.16. These deferred awards are subject to a six-month retention period upon vesting. On 10 March 2016, the second anniversary of the award, a further 33% of the award vested. On that date the market value per share was £4.46. The balance of the award will vest on the third anniversary of the award.

4 At the date of the award, 2 March 2015, the market value per share was £5.83. These deferred awards are subject to a six-month retention period upon vesting. On 14 March 2016, following the first anniversary of the award, 33% of the award vested. On that date the market value per share was £4.53. On the second anniversary of the award a further 33% of the award will vest and the balance will vest on the third anniversary of the award.

5 The non-deferred award vested immediately on 29 February 2016. The shares (net of tax) are subject to a six-month retention period. At the date of vesting, the market value per share was £4.60.

6 At the date of the award, 29 February 2016, the market value per share was £4.60. These deferred awards are subject to a six-month retention period upon vesting. On the first anniversary of the award 33% of the award will vest, a further 33% of the award will vest on the second anniversary and the balance will vest on the third anniversary of the award.

Conditional awards under the Group Performance Share Plan

HSBC Share Plan 2011

The Group Performance Share Plan ('GPSP') is a long-term incentive plan governed by the rules of the HSBC Share Plan 2011. Vesting of GPSP awards is normally subject to the Director remaining an employee on the vesting date. Any shares (net of tax) which the Director becomes entitled to on the vesting date are subject to a retention requirement until cessation of employment. Under the Securities and Futures Ordinance of Hong Kong, interests in awards are categorised as beneficial.

				HSBC Holdings ordinary shares					
	Date of award	Footnotes	Year in which awards may vest	Awards held at 1 Jan 2016	Awards made during the period to 30 Jun 2016 Number	Awards made during the period to 30 Jun 2016 Monetary value £000	Awards vested during the period to 30 Jun 2016 Number	Awards vested during the period to 30 Jun 2016 Monetary value £000	Awards held at 30 Jun 2016[1]
Stuart Gulliver	23 Jun 2011	2	2016	482,292	—	—	498,322	2,257	—
	12 Mar 2012		2017	818,298	—	—	—	—	845,098
	11 Mar 2013		2018	472,750	—	—	—	—	488,234
	10 Mar 2014		2019	657,621	—	—	—	—	679,159
	2 Mar 2015		2020	387,638	—	—	—	—	400,334
	29 Feb 2016	3	2021	—	421,232	1,938	—	—	435,027
Iain Mackay	23 Jun 2011	2	2016	134,836	—	—	139,318	631	—
	12 Mar 2012		2017	152,748	—	—	—	—	157,751
	11 Mar 2013		2018	220,617	—	—	—	—	227,842
	10 Mar 2014		2019	385,215	—	—	—	—	397,831
	2 Mar 2015		2020	207,632	—	—	—	—	214,432
	29 Feb 2016	3	2021	—	235,654	1,084	—	—	243,371
Marc Moses	23 Jun 2011	2	2016	125,190	—	—	129,351	586	—
	12 Mar 2012		2017	425,514	—	—	—	—	439,450
	11 Mar 2013		2018	245,829	—	—	—	—	253,881
	10 Mar 2014		2019	385,177	—	—	—	—	397,792
	2 Mar 2015		2020	207,632	—	—	—	—	214,432
	29 Feb 2016	3	2021	—	235,654	1,084	—	—	243,371

1 Includes additional shares arising from scrip dividends.

2 On 15 March 2016, the deferred awards granted in 2011 vested. On that date the market value per share was £4.53.

3 At the date of award, 29 February 2016, the market value per share was £4.60.

No Directors held any short position (as defined in the Securities and Futures Ordinance of Hong Kong) in the shares or debentures of HSBC Holdings and its associated corporations. Save as stated above, none of the Directors had an interest in any shares or debentures of HSBC Holdings or any associates at the beginning or at the end of the period, and none of the Directors or members of their immediate families were awarded or exercised any right to subscribe for any shares or debentures in any HSBC corporation during the period. Since 30 June 2016, the interests of each of the following Directors have increased by the number of HSBC Holdings ordinary shares shown against their name:

Increase in Directors' interests since 30 June 2016

	HSBC Holdings ordinary shares	Footnotes
Beneficial owner		
Kathleen Casey	130	1, 2
Henri de Castries	244	2
Douglas Flint	108	3
Stuart Gulliver	48,938	4
Sam Laidlaw	597	2
Iain Mackay	22,607	4
Heidi Miller	60	1, 2
Marc Moses	27,286	4
Paul Walsh	79	2

1 Comprises interests in ADSs, which are categorised as equity derivatives under Part XV of the Securities and Futures Ordinance of Hong Kong. Each ADS represents five HSBC Holdings ordinary shares.

2 Additional shares arising from scrip dividends.

3 Comprises the acquisition of shares in the HSBC Holdings UK Share Incentive Plan through regular monthly contributions (30 shares) and the automatic reinvestment of dividend income on shares held in the HSBC Holdings UK Share Incentive Plan (78 shares).

4 Comprises scrip dividend on Restricted Share awards and GPSP awards granted under the HSBC Share Plan 2011.

Shareholder information (continued)

2 Employee share plans

Share options and discretionary awards of shares are granted under HSBC share plans to help align the interests of employees with those of shareholders. The following are particulars of outstanding options, including those held by employees working under employment contracts that are regarded as 'continuous contracts' for the purposes of the Hong Kong Employment Ordinance. The options were granted for nil consideration. No options have been granted to substantial shareholders, suppliers of goods or services, or in excess of the individual limit for each share plan. No options were cancelled by HSBC during the period.

A summary, for each plan, of the total number of options which were granted, exercised or lapsed during the period is shown in the following tables. Particulars of options held by Directors of HSBC Holdings are set out on page 147. Further details required to be disclosed pursuant to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited are available on our website at www.hsbc.com, and on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk. Copies may be obtained upon request from the Group Company Secretary, 8 Canada Square, London E14 5HQ.

All-employee share plans

The HSBC Holdings Savings-Related Share Option Plan and the HSBC Holdings Savings-Related Share Option Plan: International are all-employee share plans under which eligible employees have been granted options to acquire HSBC Holdings ordinary shares. There will be no further grant of options under the HSBC Holdings Savings-Related Share Option Plan: International; the final grant was in 2012. The HSBC International Employee Share Purchase Plan was introduced in 2013 and now includes employees based in 25 jurisdictions.

For options granted under the HSBC Holdings Savings-Related Option Plan, employees make contributions of up to £500 each month over a period of three or five years which may be used within six months following the third or fifth anniversary of the commencement of the relevant savings contract, at the employee's election, to exercise the options. Alternatively, the employee may elect to have the savings, plus (where applicable) any interest or bonus, repaid in cash. In the case of redundancy, retirement including on grounds of injury or ill health, the transfer of the employing business to another party, or a change of control of the employing company, options may be exercised before completion of the relevant savings contract. In certain circumstances, the exercise period of options granted under the all-employee share plans may be extended, for example, on the death of a participant the executors may exercise the option up to six months beyond the normal exercise period.

The terms set out in the preceding paragraph also applied to options granted up to April 2012 under the HSBC Holdings Savings-Related Share Option Plan: International with the exception that contributions were capped at the equivalent of £250.

Under the HSBC Holdings Savings-Related Share Option Plan and the HSBC Holdings Savings-Related Share Option Plan: International the option exercise price has been determined by reference to the average market value of the ordinary shares on the five business days immediately preceding the invitation date, then applying a discount of 20%. Where applicable, the US dollar, Hong Kong dollar and euro exercise prices were converted from the sterling exercise price at the applicable exchange rate on the working day preceding the relevant invitation date. The HSBC Holdings Savings-Related Share Option Plan will terminate on 23 May 2025 unless the Directors resolve to terminate the plan at an earlier date.

HSBC Holdings All-employee Share Option Plans

Dates of award from	to	Exercise price from	to	Exercisable from	to	Footnotes	HSBC Holdings ordinary shares At 1 Jan 2016	Granted in period	Exercised in period	Lapsed in period	At 30 Jun 2016
Savings-Related Share Option Plan						1					
21 Apr 2010	22 Sep	(£) 4.0472	(£) 5.4738	1 Aug 2015	30 April		71,709,819	—	951,619	8,930,274	61,827,926

	2015				2021						
Savings-Related Share Option Plan: International						2					
21 Apr 2010	24 Apr 2012	(£) 4.4621	(£) 5.4573	1 Aug 2014	31 Jan 2018		1,130,991	—	333,065	258,887	539,039
21 Apr 2010	24 Apr 2012	($) 7.1456	($) 8.2094	1 Aug 2014	31 Jan 2018		665,445	—	13,569	415,504	236,372
21 Apr 2010	24 Apr 2012	(€) 5.3532	(€) 6.0657	1 Aug 2015	31 Jan 2018		153,610	—	23,777	19,553	110,280
21 Apr 2010	24 Apr 2012	(HK$) 55.4701	(HK$) 63.9864	1 Aug 2015	31 Jan 2018		1,114,830	—	60,141	505,889	548,800

1 The weighted average closing price of the shares immediately before the dates on which options were exercised was £4.79.

2 The weighted average closing price of the shares immediately before the dates on which options were exercised was £4.91.

3 Notifiable interests in share capital

At 30 June 2016, HSBC Holdings had received the following notification of major holdings of voting rights pursuant to the requirements of Rule 5 of the Disclosure Guidance and Transparency Rules:

- BlackRock, Inc. gave notice on 24 May 2016 that on 23 May 2016 it had an indirect interest in HSBC Holdings ordinary shares of 1,141,129,047; qualifying financial instruments with 19,267,029 voting rights that may be acquired if the instruments are exercised or converted; and financial instruments with similar economic effect to qualifying financial instruments which refer to 7,029,186 voting rights, each representing 5.75%, 0.09% and 0.03%, respectively, of the total voting rights at that date.

At 30 June 2016, as recorded in the register maintained by HSBC Holdings pursuant to section 336 of the Securities and Futures Ordinance of Hong Kong:

- JPMorgan Chase & Co. gave notice on 25 May 2016 that on 23 May 2016 it had the following interests in HSBC Holdings ordinary shares: a long position of 930,672,268 shares; a short position of 159,394,496 shares; and a lending pool of 536,945,956 shares, each representing 4.69%, 0.80% and 2.71%, respectively, of the ordinary shares in issue at that date. Since 30 June 2016, JPMorgan Chase & Co. gave notice on 6 July 2016 that on 1 July 2016 it had the following interests in HSBC Holdings ordinary shares: a long position of 972,489,499 shares; a short position of 224,324,049 shares; and a lending pool of 509,817,402 shares, each representing 4.90%, 1.13% and 2.57%, respectively, of the ordinary shares in issue at that date.
- BlackRock, Inc. gave notice on 23 May 2016 that on 19 May 2016 it had the following interests in HSBC Holdings ordinary shares: a long position of 1,285,704,498 shares and a short position of 5,613,912 representing 6.49% and 0.03%, respectively, of the ordinary shares in issue at that date.

4 Dealings in HSBC Holdings listed securities

Except for dealings as intermediaries by subsidiaries of HSBC Holdings, neither HSBC Holdings nor any of its subsidiaries purchased, sold or redeemed any of its securities listed on the Stock Exchange of Hong Kong Limited during the half-year ended 30 June 2016.

5 First interim dividend for 2016

The first interim dividend for 2016 of $0.10 per ordinary share was paid on 6 July 2016.

6 Second interim dividend for 2016

On 3 August 2016, the Directors declared a second interim dividend for 2016 of $0.10 per ordinary share. It will be payable on 28 September 2016 to holders of record on 12 August 2016 on the Principal Register in the United Kingdom, and the Hong Kong and Bermuda Overseas Branch Registers. The dividend will be payable in US dollars, sterling or Hong Kong dollars, or a combination of these currencies, at the forward exchange rates quoted by HSBC Bank plc in London at or about 11.00am on 19 September 2016. A scrip dividend will also be offered. Particulars of these arrangements will be sent to shareholders on or about 25 August 2016 and elections must be received by 14 September 2016.

The dividend will be payable on ordinary shares held through Euroclear France, the settlement and central depositary system for Euronext Paris, on 28 September 2016 to the holders of record on 12 August 2016. The dividend will be payable by Euroclear France in euros, at the forward exchange rate quoted by HSBC France on 19 September 2016, or as a scrip dividend. Particulars of these arrangements will be announced through Euronext Paris on 5 August 2016, 19 August 2016 and 19 September 2016.

The dividend will be payable on American Depositary Shares (‘ADS’), each of which represents five ordinary shares, on 28 September 2016 to holders of record on 12 August 2016. The dividend of $0.50 per ADS will be payable by the depositary in US dollars or as a scrip dividend of new ADSs. Elections must be received by the depositary on or before 9 September 2016. Alternatively, the cash dividend may be invested in additional ADSs by participants in the dividend reinvestment plan operated by the depositary.

Ordinary shares will be quoted ex-dividend in London, Hong Kong, Paris and Bermuda on 11 August 2016. The ADSs will be quoted ex-dividend in New York on 10 August 2016.

Any person who has acquired ordinary shares registered on the Principal Register in the United Kingdom, the Hong Kong Overseas Branch Register or the Bermuda Overseas Branch Register but who has not lodged the share transfer with the Principal Registrar, the Hong Kong or Bermuda Branch Registrar should do so before 4.00pm local time on 12 August 2016 in order to receive the dividend.

Ordinary shares may not be removed from or transferred to the Principal Register in the United Kingdom, the Hong Kong Overseas Branch Register or the Bermuda Overseas Branch Register on 12 August 2016. Any person wishing to remove ordinary shares to or from each register must do so before 4.00pm local time on 11 August 2016.
Transfers of ADSs must be lodged with the depositary by 12 noon on 12 August 2016 in order to receive the dividend.

Shareholder information (continued)

7 Proposed interim dividends for 2016

The Board has adopted a policy of paying quarterly dividends on the ordinary shares, under which it is intended to have a pattern of three equal interim dividends with a variable fourth interim dividend. The proposed timetables for dividends payable on the ordinary shares in respect of 2016 that have not yet been declared are as follows:

	Footnotes	Third interim dividend for 2016	Fourth interim dividend for 2016
Announcement		3 Oct 2016	21 Feb 2017
ADSs quoted ex-dividend in New York		19 Oct 2016	22 Feb 2017
Shares quoted ex-dividend in London, Hong Kong, Paris and Bermuda		20 Oct 2016	23 Feb 2017
Record date in London, Hong Kong, New York, Paris and Bermuda	1	21 Oct 2016	24 Feb 2017
Payment date		6 Dec 2016	6 Apr 2017

1 Removals from or transfers to the Principal Register in the United Kingdom, the Hong Kong Overseas Branch Register or the Bermuda Overseas Branch Register will not be permitted on these dates.

8 Earnings release

An earnings release for the three-month period ending 30 September 2016 is expected to be issued on 7 November 2016.

9 Final results

The results for the year to 31 December 2016 are expected to be announced on 21 February 2017.

10 Corporate governance

Throughout the six months to 30 June 2016, HSBC Holdings has complied with the applicable code provisions of: The UK Corporate Governance Code issued by the Financial Reporting Council in September 2014; and the Hong Kong Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited[1]. The UK Corporate Governance Code is available at www.frc.org.uk and the Hong Kong Corporate Governance Code is available at www.hkex.com.hk.

The Board has adopted a dealing code for transactions in HSBC Group securities by Directors ('Code for Dealing in HSBC Group Securities'). For the period under review, this code met the requirements of the FCA Listing Rules and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save that The Stock Exchange of Hong Kong Limited has granted certain waivers from strict compliance with the Rules which take into account accepted practices in the UK, particularly in respect of employee share plans.

Following specific enquiry, each Director has confirmed that he or she has complied with the Code for Dealing throughout the period. All Directors have been routinely reminded of their obligations under the Code for Dealing in HSBC Group Securities.

There have been no material changes to the information disclosed in the Annual Report and Accounts 2015 in respect of the remuneration of employees, remuneration policies, bonus and share option plans and training schemes. Details of the number of employees are provided on page 28.

1 The Group Risk Committee is responsible for the oversight of internal control (other than internal controls over financial reporting) and risk management systems (Hong Kong Corporate Governance Code provision C.3.3 paragraphs (f), (g) and (h)). In the absence of the Group Risk Committee, these matters would be the responsibility of the Group Audit Committee.

11 Changes in Directors' details

Changes in Directors' details since the date of the Annual Report and Accounts 2015 which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Hong Kong Listing Rules are set out below.

David Nish, 56

Independent non-executive Director

Appointed to the Board: 1 May 2016.

Member of the Group Audit Committee since 1 May 2016.

Skills and experience: David served as Chief Executive Officer of Standard Life plc between 2010 and 2015, having joined as Group Finance Director in 2006. David led the investment in technology, the complementary acquisitions and the disposal of the group’s Canadian operations. Other former appointments include Group Finance Director of Scottish Power plc and partner of Price Waterhouse. He is a qualified chartered accountant.
Current appointments include: A non-executive director of Vodafone Group plc, London Stock Exchange Group plc, UK Green Investment Bank plc and Zurich Insurance Group.

Henri de Castries
Henri de Castries will step down from his position as Chairman and CEO of AXA from 1 September 2016.
Douglas Flint
Mentor at Chairman Mentors International (CMi) since the end of May 2016.
Sam Laidlaw
Chair of the Saïd Business School's Business Advisory Council and a member of its School Board since 27 June 2016.
Rachel Lomax
Member of the Group Audit Committee until 20 April 2016.
Pauline van der Meer Mohr
Member of the Group Nomination Committee since 22 April 2016.
Paul Walsh
Member of the Group Nomination Committee since 1 May 2016.
Irene Lee
Member of the Risk Committee and Chairman of the Audit Committee for The Hongkong and Shanghai Banking Corporation Limited since 18 April 2016.
Rona Fairhead and Sir Simon Robertson retired from the Board at the conclusion of the HSBC Holdings AGM on 22 April 2016.

12 Going concern basis

As mentioned in Note 1 Basis of preparation on page 115, the financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

In particular, HSBC's principal activities, business and operating models, strategic direction and top and emerging risks are addressed in the 'Overview' section; a financial summary, including a review of the consolidated income statement and consolidated balance sheet, is provided in the 'Interim Management Report' section; HSBC's objectives, policies and processes for managing credit, liquidity and market risk are described in the 'Risk' section of the Annual Report and Accounts 2015; and HSBC's approach to capital management and allocation is described in the 'Capital' section of the Annual Report and Accounts 2015.

13 Telephone and online share dealing service

For shareholders on the Principal Register who are resident in the UK, with a UK postal address, and who hold an HSBC Bank plc personal current account, the HSBC InvestDirect share dealing service is available for buying and selling HSBC Holdings ordinary shares. Details are available from: HSBC InvestDirect, Forum 1, Parkway, Whiteley PO15 7PA; or UK telephone: 03456 080848, or from an overseas telephone: +44 (0) 1226 261090; or website: www.hsbc.co.uk/shares.

14 Stock symbols

HSBC Holdings plc ordinary shares trade under the following stock symbols:

London Stock Exchange	HSBA
Hong Kong Stock Exchange	5
New York Stock Exchange (ADSs)	HSBC
Euronext Paris	HSB
Bermuda Stock Exchange	HSBC.BH

Shareholder information (continued)

15 Copies of the Interim Report 2016 and shareholder enquiries and communications

Further copies of the Interim Report 2016 may be obtained from External Affairs, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; from Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; or from Investor Relations, HSBC North America, 1421 West Shure Drive, Suite 100, Arlington Heights, Illinois 60004. The Interim Report 2016 may also be downloaded from the HSBC website, www.hsbc.com.

Shareholders may at any time choose to receive corporate communications in printed form or to receive notifications of their availability on HSBC's website. To receive future notifications of the availability of a corporate communication on HSBC's website by email, or to revoke or amend an instruction to receive such notifications by email, go to www.hsbc.com/ecomms. If you provide an email address to receive electronic communications from HSBC, we will also send notifications of your dividend entitlements by email. If you received a notification of the availability of this document on HSBC's website and would like to receive a printed copy of it or, if you would like to receive future corporate communications in printed form, please write or send an email (quoting your shareholder reference number) to the appropriate Registrar at the address given below. Printed copies will be provided without charge.

Any enquiries relating to your shareholdings on the share register, for example transfers of shares, change of name or address, lost share certificates or dividend cheques, should be sent to the Registrar at the address given below. The Registrar offers an online facility, Investor Centre, which enables shareholders to manage their shareholding electronically.

Principal Register	Hong Kong Overseas Branch Register	Bermuda Overseas Branch Register
Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ United Kingdom	Computershare Hong Kong Investor Services Limited Rooms 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Hong Kong	Investor Relations Team HSBC Bank Bermuda Limited 6 Front Street Hamilton HM 11 Bermuda
Telephone: +44 (0) 370 702 0137 Email via website: www.investorcentre.co.uk/contactus	Telephone: +852 2862 8555 Email: hsbc.ecom@computershare.com.hk	Telephone: +1 441 299 6737 Email: hbbm.shareholder.services@hsbc.bm
Investor Centre: www.investorcentre.co.uk	Investor Centre: www.investorcentre.com/hk	Investor Centre: www.investorcentre.co.uk/bm

Any enquiries relating to ADSs should be sent to the depositary at:

The Bank of New York Mellon Depositary Receipts PO Box 30170 College Station, TX 77842-3170 USA	Telephone (US): +1 877 283 5786 Telephone (international): +1 201 680 6825 Email: shrrelations@bnymellon.com Website: www.computershare.com/us/contact/pages/default.aspx

Any enquiries relating to shares held through Euroclear France, the settlement and central depositary system for NYSE Euronext Paris, should be sent to the paying agent:

HSBC France 103, avenue des Champs Elysées 75419 Paris Cedex 08 France	Telephone: +33 1 40 70 22 56 Email: ost-agence-des-titres-hsbc-reims.hbfr-do@hsbc.fr Website: www.hsbc.fr

A Chinese translation of this and future documents may be obtained on request from the Registrar. Please also contact the Registrar if you have received a Chinese translation of this document and do not wish to receive such translations in future.

Persons whose shares are held on their behalf by another person may have been nominated to receive communications from HSBC pursuant to section 146 of the UK Companies Act 2006 ('nominated person'). The main point of contact for a nominated person remains the registered shareholder (for example your stockbroker, investment manager, custodian or other person who manages the investment on your behalf). Any changes or queries relating to a nominated person's personal details and holding (including any administration thereof) must continue to be directed to the registered shareholder and not HSBC's Registrar. The only exception is where HSBC, in exercising one of its powers under the UK Companies Act 2006, writes to nominated persons directly for a response.

Abbreviations

Abbreviation	Brief description
1H15	First half of 2015
1H16	First half of 2016
1Q15	First quarter of 2015
1Q16	First quarter of 2016
2H15	Second half of 2015
2Q15	Second quarter of 2015
2Q16	Second quarter of 2016
A	
ABS	Asset-backed security
ADS	American Depositary Share
AFS	Available for sale
AIEA	Average interest-earning assets
AML	Anti-money laundering
ARM	Adjustable-rate mortgage
AT1	Additional tier 1
B	
Basel Committee	Basel Committee on Banking Supervision
Basel III	Basel Committee's reforms to strengthen global capital and liquidity rules
Bps	Basis points. One basis point is equal to one hundredth of a percentage point
BoCom	Bank of Communications Co., Limited, one of China's largest banks
BRRD	Bank Recovery and Resolution Directive (EU)
BSA	Bank Secrecy Act (US)
BSM	Balance Sheet Management
BVI	British Virgin Islands
C	
CA$	Canadian dollars
CAPM	Capital asset pricing model
CCAR	Federal Reserve Comprehensive Capital Analysis and Review
CCB	Capital conservation buffer
CCP	Central counterparty
CCR	Counterparty credit risk
CCyB	Countercyclical capital buffer
CEA	Commodity Exchange Act (US)
CET1	Common equity tier 1
CGUs	Cash-generating units
CIUs	Collective investment undertakings
CMB	Commercial Banking, a global business
CMC	Capital maintenance charge
CML	Consumer and Mortgage Lending (US)
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CRS	Card and Retail Services
CVA	Credit valuation adjustment
D	
DFAST	Dodd-Frank Act Stress Testing
DoJ	Department of Justice (US)
DPA	Deferred prosecution agreement (US)

DPF	Discretionary participation feature of insurance and investment contracts
DVA	Debit value adjustment
E	
EBA	European Banking Authority
EU	European Union
Euribor	European Interbank Offered Rate
F	
FCA	Financial Conduct Authority (UK)

Shareholder information (continued)

FOS	Financial Ombudsman Service
FPC	Financial Policy Committee (UK)
FRB	Federal Reserve Board (US)
FTE	Full-time equivalent staff
FuM	Funds under management
G	
GB&M	Global Banking and Markets, a global business
GDP	Gross domestic product
GLCM	Global Liquidity and Cash Management
GPB	Global Private Banking, a global business
GPSP	Group Performance Share Plan
Group	HSBC Holdings together with its subsidiary undertakings
G-SIB	Global systemically important bank
G-SII	Global systemically important institution
GTRF	Global Trade and Receivables Finance
H	
HK$	Hong Kong dollar
HNAH	HSBC North America Holdings Inc.
Hong Kong	Hong Kong Special Administrative Region of the People's Republic of China
HQLA	High-quality liquid assets
HSBC	HSBC Holdings together with its subsidiary undertakings
HSBC Bank	HSBC Bank plc
HSBC Bank Middle East	HSBC Bank Middle East Limited
HSBC Bank USA	HSBC Bank USA, N.A., HSBC's retail bank in the US
HSBC Colombia	HSBC Bank (Colombia) S.A.
HSBC Finance	HSBC Finance Corporation, the US consumer finance company (formerly Household International, Inc.)
HSBC France	HSBC's French banking subsidiary, formerly CCF S.A.
HSBC Holdings	HSBC Holdings plc, the parent company of HSBC
HSBC USA	The sub-group, HSBC USA Inc and HSBC Bank USA, consolidated for liquidity purposes
HSI	HSBC Securities (USA) Inc.
HSSL	HSBC Securities Services (Luxembourg)
HTIE	HSBC Institutional Trust Services (Ireland) Limited
HTM	Held to maturity
I	
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRSs	International Financial Reporting Standards
ILAA	Individual liquidity adequacy assessment
ILR	Inherent liquidity risk
Industrial Bank	Industrial Bank Co. Limited, a national joint-stock bank in mainland China in which Hang Seng Bank Limited has a shareholding
Investor Update	The Investor Update in June 2015
IRB	Internal ratings-based
ISDA	International Swaps and Derivatives Association
L	

LCR	Liquidity coverage ratio
LFRF	Liquidity and funding risk management framework
LGD	Loss given default
Libor	London Interbank Offered Rate
LICs	Loan impairment charges and other credit risk provisions
LTV	Loan to value
M	
Madoff Securities	Bernard L Madoff Investment Securities LLC
Mainland China	People’s Republic of China excluding Hong Kong and Macau
MBS	US mortgage-backed security
MDB	Multilateral development banks
MENA	Middle East and North Africa
MREL	EU minimum requirements for own funds and eligible liabilities

N	
NII	Net interest income
NSFR	Net stable funding ratio
O	
OCC	Office of the Comptroller of the Currency (US)
ORMF	Operational risk management framework
O-SII	Other systemically important institution
P	
PBT	Profit before tax
PPI	Payment protection insurance product
PRA	Prudential Regulation Authority (UK)
Premier	HSBC Premier, HSBC's premium personal global banking service
PSE	Public sector entities
PVIF	Present value of in-force long-term insurance business and long-term investment contracts with DPF
PwC	PricewaterhouseCoopers LLP and its network of firms
Q	
QIS	Quantitative impact study
R	
RAS	Risk Appetite Statement
RBWM	Retail Banking and Wealth Management, a global business
Repo	Sale and repurchase transaction
Reverse repo	Security purchased under commitments to sell
RMB	Renminbi
RMBS	Residential mortgage-backed securities
RNIV	Risk not in VaR
RoE	Return on equity
RoRWA	Return on average risk-weighted assets
RQFII	Renminbi qualified foreign institutional investor
RTS	Regulatory technical standards
RWAs	Risk-weighted assets
S	
ServCo group	Separately incorporated group of service companies planned in response to UK ring-fencing proposals
SFT	Securities financing transactions
SPE	Special purpose entity
T	
T1	Tier 1
T2	Tier 2
TDR	Troubled debt restructuring
The Hongkong and Shanghai Banking Corporation	The Hongkong and Shanghai Banking Corporation Limited, the founding member of HSBC
TLAC	Total loss absorbing capacity
U	
UAE	United Arab Emirates
UK	United Kingdom
US	United States of America

US DPA	Five-year deferred prosecution agreement with the Department of Justice and others (US)
US run-off portfolio	Includes the run-off CML residential mortgage loan portfolio of HSBC Finance on an IFRSs management basis
V	
VaR	Value at risk
VIU	Value in use

Glossary

Terminology used in this Interim Report is consistent with that used in our Annual Report and Accounts 2015, and Capital and Risk Management Pillar 3 disclosures 2015, where a glossary of terms can be found.

Shareholder information (continued)

Index

HSBC HOLDINGS PLC
159

HSBC HOLDINGS PLC
160

Shareholder information (continued)
